

1-1-1990

Checklists and illustrative financial statements for corporations : a financial reporting practice aid, November 1990 edition

American Institute of Certified Public Accountants. Technical Information Division

Michael A. Tursi

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**Checklists and
Illustrative Financial
Statements for Corporations**
A FINANCIAL REPORTING PRACTICE AID

AICPA

American Institute of Certified Public Accountants

Checklists and Illustrative Financial Statements for Corporations (Product No. 008517)

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November 1990 Edition

Checklists and Illustrative Financial Statements for Corporations

A FINANCIAL REPORTING PRACTICE AID

Prepared by

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Technical Information Division**

The Checklists and Illustrative Financial Statements for Corporations have not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and has no official or authoritative status.

American Institute of Certified Public Accountants

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- o The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- o The checklists and illustrative financial statements have been updated through SAS No. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- o The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- o The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all inclusive. The checklists were developed for use in respect of the financial statements of general "for profit" companies and probably will require extensive modification if applied to the financial statements of "not-for-profit" organizations and companies in specialized industries. Pages 67-69 include a list of FASB Statements and Interpretations related to specialized industries which are not included in this checklist.

Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have any further questions, call the AICPA Technical Hotline (see back cover).

John Graves
Director
Technical Services

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

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INTRODUCTION

General Comments

- .01 Illustrative financial statement formats are often helpful in developing a consistent style of presentation within a firm. However, the circumstances of engagements vary widely, and no set of illustrative financial statements can cover all situations likely to be encountered in practice, particularly when the client is engaged in a specialized industry. Accordingly, users should refer to the firm's own report files, illustrations in authoritative pronouncements, and other sources such as AICPA industry audit guides and Accounting Trends and Techniques, library collections of published financial reports, and the AICPA National Automated Accounting Research System (NAARS).

The Balance Sheet

- .02 The companies surveyed in Accounting Trends and Techniques¹ generally use the title "balance sheet" for their statements of assets, liabilities, and stockholder's equity. Other titles used by those companies are "statement of financial position" and "statement of financial condition."
- .03 There are two basic ways that balance sheets are arranged:
- a. Account Form - Assets are listed on the left-hand side and totaled to equal the sum of liabilities and stockholder's equity on the right-hand side.
 - b. Report Form - Assets are listed at the top of the page followed by liabilities and stockholder's equity. Sometimes total liabilities are deducted from total assets to equal stockholder's equity.

Statement of Income

- .04 The companies surveyed for Accounting Trends and Techniques generally use the term "income" in the title of their presentations of the results of operations. Other terms used by those companies are "earnings" and "operations."
- .05 The income statement is usually presented in one of the following formats:
- a. Single-Step Format - The single-step format groups the components of net income into two categories: (1) reve-

1 Accounting Trends and Techniques (New York, AICPA) 1989, p. 101.

nues and gains and (2) expenses and losses. The difference between the two subtotals is net income or loss for the period.

- b. Multiple-Step Format - The multiple-step format shows various intermediate components of net income. Generally operating results are presented separately from nonoperating results, e.g., costs and expenses are deducted from sales followed by nonoperating revenues, gains, expenses, and losses, and are grouped by type or function. Intermediate components of net income that are frequently presented in multiple-step statements are gross profit, income from operations, and other income and expenses.

Statements of Retained Earnings or Stockholder's Equity

- .06 Although separate statements of retained earnings and statements of stockholder's equity are common presentations for public companies, their use by nonpublic companies is much less frequent. The required disclosure can often be made without presenting separate statements. This is a direct consequence of the generally much simpler capital structure of nonpublic entities and the fact that their securities are not frequently transferred.
- .07 In most cases the only change in stockholder's equity of a nonpublic company is the change in retained earnings resulting from net income (or loss). This change can, generally, be adequately disclosed by expansion of the statement of income or in the balance sheet.
- .08 When nonpublic companies do experience changes in other components of stockholder's equity, e.g., issuance of stock, purchase of treasury stock, and stock splits, disclosure is generally made in the notes or in a separate statement of changes in stockholder's equity.

Statement of Cash Flows

- .09 A statement of cash flows is required as a part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position as a result of the issuance of SFAS Statement 95. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.
- .10 A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities. Entities can report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method).

Entities that choose not to show operating cash receipts and payments are required to report the same amount of net cash flow from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). If the direct method is used, a reconciliation of net income and net cash flow from operating activities is required to be provided a separate schedule.

Notes to Financial Statements

- .11 Authoritative pronouncements mandate many types of disclosures but do not mandate the manner of presentation. Some disclosures are best presented in separate notes rather than in the basic financial statements. Descriptions of accounting policies and notes to financial statements are recognized in SAS No. 29 as components of the "basic financial statements" necessary for a fair presentation in accordance with generally accepted accounting principles. Thus, notes are an integral part of financial statements. They should be used to present material disclosures required by generally accepted accounting principles that are not otherwise presented in the statements, i.e., on the face of the statements.

Checklists--General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, and Accounting Research Bulletins. Some checklists also include references to FASB Interpretations and to selected SEC disclosure requirements. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements," and "in note" (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- o Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- o The checklists are not all inclusive and are not intended to present minimum requirements.

- o Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

.02 Explanation of References:

ARB = Accounting Research Bulletin
APB = Accounting Principles Board Opinion
SFAS = Statement of Financial Accounting Standards
SAS = Statement on Auditing Standards
FASBI = Financial Accounting Standards Board Interpretation
TB = Technical Bulletin issued by the staff of the FASB¹
AC = Reference to section number in FASB Accounting Standards Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited

.03 This checklist is organized into the following classifications:

o General

- A. Titles and References
- B. Disclosure of Accounting Policies
- C. Accounting Changes
- D. Comparative Financial Statements
- E. Business Combinations
- F. Consolidations
- G. Related Party Transactions and Economic Dependency
- H. Financial Instruments
- I. Foreign Currency
- J. Nonmonetary Transactions
- K. Contingencies and Commitments
- L. Subsequent Events
- M. Pension Plans
- N. Futures Contracts
- O. Other Matters

¹The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

- o Balance Sheet
 - A. General
 - B. Cash
 - C. Marketable Securities
 - D. Receivables
 - E. Inventories
 - F. Investments
 - G. Property and Equipment
 - H. Lessors
 - I. Other Assets and Deferred Charges
 - J. Current Liabilities
 - K. Notes Payable and Other Debt
 - L. Lessees
 - M. Other Liabilities and Deferred Credits
 - N. Stockholders' Equity
 - O. Changes in Stockholders' Equity
- o Income Statement
 - A. Revenue and Expenses
 - B. Income Taxes
 - C. Discontinued Operations
 - D. Extraordinary Items
 - E. Other
- o Statement of Cash Flows
 - A. Format
 - B. Content
- o Exhibit A--Accounting for Income Taxes

.04 General

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| A. Titles and References | | | |
| 1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)] | — | — | — |
| 2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [FASB Statement of Concepts No. 1, par. 18] | — | — | — |
| 3. Are the notes referenced to and from the applicable statement classification or appropriately captioned? [FASB Statement of Concepts No. 1, par. 18] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| B. Disclosure of Accounting Policies | | | |
| 1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)] | _____ | _____ | _____ |
| 2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105); TB 82-1, par. 4 (AC I28.510)] | _____ | _____ | _____ |
| 3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)] | _____ | _____ | _____ |
| C. Accounting Changes | | | |
| 1. For an accounting change does disclosure in the period of the change include: | | | |
| a. Nature of the change? | _____ | _____ | _____ |
| b. Justification for the change including a clear explanation why the newly adopted principle is preferable? | _____ | _____ | _____ |
| c. Effect on income? [APB 20, par. 17 (AC A06.113)] | _____ | _____ | _____ |
| 2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5-6 (AC A06.112)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. For all changes in accounting principle, except those concerning a change in entity: | | | |
| a. Are financial statements included for prior periods, for comparative purposes, as previously reported? | _____ | _____ | _____ |
| b. Is the effect of the new accounting principle on income before extraordinary items and on net income and the related earnings per share amount disclosed in the period of the change? | _____ | _____ | _____ |
| c. Is income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19, 21 & 25 (AC A06.115d, .117 and .121)] | _____ | _____ | _____ |
| 4. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions "extraordinary items" and "net income"? [APB 20, pars. 18-26 (AC A06.114-.122 and E09.104)] | _____ | _____ | _____ |
| 5. If prior periods are presented, are they restated for the following special changes in accounting principles: | | | |
| a. Change from LIFO method of inventory pricing to another method? | _____ | _____ | _____ |
| b. Change in method of accounting for long-term construction-type contracts? | _____ | _____ | _____ |
| c. Change to or from the full cost method of accounting in extractive industries? [APB 20, pars. 27-28 (AC A06.123-.124)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 6. Is the correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction: | | | |
| a. Nature of the error in previously issued financial statements? | _____ | _____ | _____ |
| b. Effect of its correction on income before extraordinary items, net income, and related per share amounts? [APB 20, pars. 36-37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)] | _____ | _____ | _____ |
| D. Comparative Financial Statements | | | |
| 1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)] | _____ | _____ | _____ |
| 2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)] | _____ | _____ | _____ |
| 3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)] | _____ | _____ | _____ |
| E. Business Combinations | | | |
| 1. If a business combination occurred during the period and met the specified conditions for a pooling of interests [APB 16, pars. 45-48 (AC B50.104-.107)]: | | | |
| a. Has the required accounting method been applied? [APB 16, pars. 50-62 (AC B50.109-.121)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| b. Do the statements and notes include the required disclosures? [APB 16, pars. 63-65 (AC B50.122-.124)] | — | — | — |
| 2. If a business combination does not meet the specified conditions for a pooling of interests: | | | |
| a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66-94 (AC B50.125-.147 and .159-.163); SFAS 38 (AC B50.148-.150 and .166); TB 81-2, par. 4 (AC B50.650); FASBI 4 (AC B50.151-.152) concerns research and development activities of an acquired subsidiary] | — | — | — |
| b. Do the statements and notes include the required disclosures? [APB 16, pars. 95-96 (AC B50.164-.165); SFAS 79, pars. 4-6 (AC B50.165)] | — | — | — |
| 3. If significant, has the amount of net operating loss or tax credit carryforwards for which any tax benefits will be applied to reduce goodwill and other noncurrent assets (of an acquired enterprise) been disclosed separately? [SFAS 96, par. 29 (AC I25.128)] | — | — | — |
| 4. If financial statements for prior years are restated, have all purchase business combinations that were consummated in those prior years been remeasured in accordance with the requirements of SFAS 96 (AC section I25)? [SFAS 96, par. 35] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| F. Consolidations | | | |
| 1. If consolidated statements are presented: | | | |
| a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)] | — | — | — |
| b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109 and Re6.110)] | — | — | — |
| c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18-20 (AC I89.112-.114); FASBI 13 (AC I89.120-.122)] | — | — | — |
| 2. Are current and noncurrent marketable equity securities portfolios of consolidated entities treated as single current and noncurrent consolidated portfolios? [SFAS 12, pars. 9 & 15 (AC I89.103 and .109)] | — | — | — |
| 3. If the parent company includes realized gains or losses of marketable securities in net income and a consolidated subsidiary does not, has the subsidiary's accounting treatment for marketable securities been conformed with that of the parent? [SFAS 12, par. 18 (AC I89.112)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 4. If the parent follows specialized accounting practices for marketable securities and the consolidated subsidiaries do not, are the subsidiaries' current and non-current portfolios consolidated as separate current and noncurrent portfolios exclusive of the parent and is the information required by SFAS 12, par. 12 disclosed? [SFAS 12, pars. 12 & 19 (AC I89.106 and .113)] | _____ | _____ | _____ |
| 5. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed? [SFAS 12, par. 20 (AC I89.114)] | _____ | _____ | _____ |
| 6. For undistributed earnings of a consolidated subsidiary and/or corporate joint venture, for which income taxes have not been accrued, do disclosures include: | | | |
| a. Declaration of either intention to reinvest such earnings to support the conclusion that their remittance has been indefinitely postponed, or that the undistributed earnings will be remitted in the form of a tax free liquidation? | _____ | _____ | _____ |
| b. Cumulative amount of undistributed earnings on which the parent company has not recognized income taxes? [APB 23, pars. 14 & 18 (AC I42.109 and .112)] | _____ | _____ | _____ |
| 7. Do disclosures about formerly unconsolidated majority-owned subsidiaries from financial statements for fiscal years 1986 or 1987 include summarized information about the assets, liabilities, and results of operations (or separate statements) in the consolidated financial statements or notes? [SFAS 94, par. 14 (AC C51.120A)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| G. Related-Party Transactions and Economic Dependency | | | |
| 1. For related-party transactions do disclosures include: | | | |
| a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)? | _____ | _____ | _____ |
| b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements? | _____ | _____ | _____ |
| c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period? | _____ | _____ | _____ |
| d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2-4 (AC R36.102-.104)] | _____ | _____ | _____ |
| 2. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9 (AC S20.103)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? [SFAS 57, pars. 2 & 4 (AC R36.102 and .104)] | _____ | _____ | _____ |
| 4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)] | _____ | _____ | _____ |
| H. Financial Instruments | | | |
| 1. Does the entity have a financial instrument that is: | | | |
| a. cash in banks or on hand, or | _____ | _____ | _____ |
| b. evidence of an ownership interest in an entity, or | _____ | _____ | _____ |
| c. a contract that both: | | | |
| 1. imposes on one entity a contractual obligation (liability) | | | |
| (i) to deliver cash or financial instrument to a second entity or | _____ | _____ | _____ |
| (ii) to exchange financial instruments on potentially unfavorable terms with the second entity? | _____ | _____ | _____ |
| 2. Conveys to that second entity a contractual right: | | | |
| (i) to receive cash or another financial instrument from the first entity or | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| (ii) to exchange other financial instruments on potentially favorable terms with the first entity. [SFAS 105, par. 6 (AC F25.106)] | — | — | — |
| 2. For financial instruments with off-balance-sheet risk, (except for those excluded in the statement) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument: ² | | | |
| a. The face or contract amount (or notional principal amount if there is no face or contract amount)? | — | — | — |
| b. The nature and terms, including, at a minimum, a discussion of: <ul style="list-style-type: none"> (1) The credit and market risk of those instruments? (2) The cash requirements of those instruments? (3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, par. 17 (AC F25.112)] | — | — | — |
| 3. For financial instruments with off-balance-sheet risk, (except as noted above in H.2) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument: | | | |

²Practices for grouping and separately identifying--classifying--similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity? | _____ | _____ | _____ |
| b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)] | _____ | _____ | _____ |
| 4. Did disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include the following: | | | |
| a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration? | _____ | _____ | _____ |
| b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity? | _____ | _____ | _____ |
| c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)] | — | — | — |
| I. Foreign Currency | | | |
| 1. Is the aggregate exchange gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)] | — | — | — |
| 2. Is an analysis of changes during the period in the separate component of equity for cumulative translation adjustments included, and does it disclose: | | | |
| a. Beginning and ending amount of cumulative translation adjustments? | — | — | — |
| b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances? | — | — | — |
| c. The amount of income taxes for the period allocated to translation adjustments? | — | — | — |
| d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)] | — | — | — |
| 3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)] | — | — | — |
| 4. Are any foreign earnings reported in addition to amounts received in the | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F60.144)] | — | — | — |
| 5. Are foreign operations adequately disclosed? [ARB 43, Ch. 12, pars. 8-9 (AC C51.105-.106)] | — | — | — |
| J. Nonmonetary Transactions | | | |
| 1. Are nonmonetary transactions accounted for in conformity with APB 29? [APB 29, pars. 18-27 (AC C11.101 and N35.105-.113)] | — | — | — |
| 2. Do disclosures for nonmonetary transactions during the period include: | | | |
| a. Nature of the transactions? | — | — | — |
| b. Basis of accounting for the assets transferred? | — | — | — |
| c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)] | — | — | — |
| 3. If stock is issued to acquire the results of a research and development arrangement, for rights to use the results, or for ownership interests in the arrangement, or a successor to the arrangement, is the stock issued accounted for at its fair value or at the value of the consideration received, whichever is more clearly evident? [TB 84-1, par. 7 (AC R55.504)] | — | — | — |
| K. Contingencies and Commitments | | | |
| 1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)] | — | — | — |
| 2. For loss contingencies not accrued do disclosures indicate: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Nature of the contingency? | _____ | _____ | _____ |
| b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)] | _____ | _____ | _____ |
| 3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)] | _____ | _____ | _____ |
| 4. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, obligations of banks under standby letters of credit, guarantees to repurchase receivables that have been sold or otherwise assigned)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)] | _____ | _____ | _____ |
| 5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)] | _____ | _____ | _____ |
| 6. Is there adequate disclosure of commitments such as those for capital expenditures, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18-19 (AC C59.120)] | _____ | _____ | _____ |
| 7. For long-term unconditional purchase obligations associated with suppliers' financing that are not recognized in the balance sheet, are the following disclosed: | | | |
| a. Nature of the obligation(s)? | _____ | _____ | _____ |
| b. Amount of the fixed and determinable obligation in the aggregate and for each of the next five years? | _____ | _____ | _____ |
| c. Description of any portion of the obligation that is variable? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| d. Purchases under the obligation(s) for each year for which an income statement is presented? [SFAS 47, par. 7 (AC C32.102)] | — | — | — |
| 8. For long-term unconditional purchase obligations associated with suppliers' financing that are recognized in the balance sheet, has the aggregate amount of payments for each of the five years following the latest balance sheet been presented? [SFAS 47, par. 10a (AC C59.105a)] | — | — | — |
| L. Subsequent Events | | | |
| 1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, .07 & 561.01-.09 (AU 560.03-.04, .07 and 561.01-.09)] | — | — | — |
| 2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05-.07, .09 & 561.01-.09 (AU 560.05-.07, .09 and 561.01-.09)] | — | — | — |
| M. Pension Plans | | | |
| 1. If there is a defined benefit plan, do disclosures include: | | | |
| a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and ³ the net total of other components? | _____ | _____ | _____ |
| c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately: | | | |
| (1) The fair value of plan assets? | _____ | _____ | _____ |
| (2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation? | _____ | _____ | _____ |
| (3) The amount of unrecognized prior service cost? | _____ | _____ | _____ |
| (4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)? | _____ | _____ | _____ |
| (5) The amount of any remaining unrecognized net obligation | | | |

³The net total of other components is the net effect during the period of certain delayed recognition provisions of this statement. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).
- b. Amortization of the net gain or loss from earlier periods.
- c. Amortization of unrecognized prior service cost.
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| or net asset existing at the date of initial application of SFAS 87 [AC P16]? | _____ | _____ | _____ |
| (6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]? | _____ | _____ | _____ |
| (7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 [AC P16.129-.130] (which is the net result of combining the preceding six items)? | _____ | _____ | _____ |
| d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets? | _____ | _____ | _____ |
| e. If applicable, the amount and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization methods used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in paragraph 41 [AC P16.135]? [SFAS 87, par. 54 (AC P16.150)] | _____ | _____ | _____ |
| f. If more than one defined benefit plan exists: | | | |
| (1) Have the disclosures required by 1 above been aggregated for all of the employee's single employer defined benefit plans or disaggregated in groups so | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| as to provide the most useful information? | _____ | _____ | _____ |
| (2) Are plans with assets in excess of accumulated benefit obligation not aggregated with plans that have accumulated benefit obligations that exceed plan assets? | _____ | _____ | _____ |
| (3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)] | _____ | _____ | _____ |
| 2. If there is a defined contribution plan, do disclosures include: | | | |
| a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented? | _____ | _____ | _____ |
| b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)] | _____ | _____ | _____ |
| c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan: | | | |
| (1) Is the substance of the plan to provide a defined benefit? | _____ | _____ | _____ |
| (2) If answer is yes, are accounting and disclosure requirements in accordance with the provisions of M1 above, applicable to a defined benefit plan? [SFAS 87, par. 66 (AC P16.163)] | _____ | _____ | _____ |
| 3. If there is a multiemployer plan, do disclosures include: | | | |
| a. A description of the multiemployer plan(s) including the employee groups covered, the type of bene- | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| fits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? | _____ | _____ | _____ |
| b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)] | _____ | _____ | _____ |
| c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 [AC C59] been applied? [SFAS 87, par. 70 (AC P16.167)] | _____ | _____ | _____ |
| 4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include: | | | |
| a. A description of the nature of the event(s)? | _____ | _____ | _____ |
| b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)] | _____ | _____ | _____ |
| N. Futures Contracts | | | |
| 1. If a futures contract is designated a hedge: | | | |
| a. Does the item to be hedged expose the enterprise to price (or interest rate) risk? | _____ | _____ | _____ |
| b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 2. If the futures contract hedges an anticipated transaction: | | | |
| a. Are the significant characteristics and expected terms of the anticipated transaction identified? | _____ | _____ | _____ |
| b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)] | _____ | _____ | _____ |
| 3. If a futures contract is accounted for as a hedge, does the disclosure include: | | | |
| a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts? | _____ | _____ | _____ |
| b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contract? [SFAS 80, par. 12 (AC F80.112)] | _____ | _____ | _____ |
| O. Other Matters | | | |
| 1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24 (AC S20.109-.110); SFAS 30 (AC S20.145); and TBs 79-4, 79-5 and 79-8 (AC S20.501-.507)] | _____ | _____ | _____ |
| 2. Postretirement Health Care and Life Insurance Benefits | | | |
| a. If health care or life insurance benefits are provided to retirees, their dependents, or survivors, do | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| disclosures ⁴ include: | | | |
| (1) A description of the benefits provided and the employee groups covered? | ___ | ___ | ___ |
| (2) A description of the accounting and funding policies followed for those benefits? | ___ | ___ | ___ |
| (3) The cost ^{5,6} of those benefits recognized for the period, unless the provisions of b below are applicable? | ___ | ___ | ___ |
| (4) The effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)] | ___ | ___ | ___ |
| b. If the cost of any postretirement health care or life insurance benefit cannot readily be separated from the cost of providing such benefits for active employees or otherwise be | | | |

⁴SFAS 81 [AC P50] does not preclude additional disclosures. The Board is aware that a few employers currently disclose information other than that required by this Statement, such as the present value of estimated future health care and life insurance benefits for retirees, the amount of contributions to trusts established for the payment of those benefits, and the fair value of assets in such trusts. The Board encourages such disclosures but does not require that they be made. Paragraph 28 of SFAS 81 [AC P50.102, footnote 2] also identifies additional information that an employer is encouraged to disclose.

⁵The cost disclosed shall be based on the accounting policy described.

⁶Employers are encouraged to use reasonable methods to approximate the costs of postretirement health care and life insurance benefits. The disclosures may be made separately for each type of benefit provided or in the aggregate for all benefits.

Yes No N/A

reasonably approximated, is the total cost of providing those benefits to both active employees and retirees as well as the number of active employees and the number of retirees⁷ covered by the plan disclosed?
[SFAS 81, par. 7 (AC P50.103)]

— — —

.05 Balance Sheet

A. General

1. For classified balance sheets are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities?

[ARB 43, Ch. 3A (AC B05.103-.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.138-.139); TB 79-3 (AC B05.501-.503)]

— — —

2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?

[ARB 43, Ch. 3A, pars. 5-6 (AC B05.106-.107)]

— — —

3. Are valuation allowances contra to such assets as receivables and investments shown as deductions from their related assets with appropriate disclosure?

[APB 12, par. 3 (AC V18.102)]

— — —

B. Cash

1. Is restricted cash appropriately segregated from cash available for current operations?

[ARB 43, Ch. 3A, par. 6 (AC B05.107)]

— — —

2. Are restrictions on cash appropriately disclosed?

[SFAS 5, pars. 18-19 (AC C59.120)]

— — —

⁷Active employees or retirees and members of their families shall be counted as one unit.

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| C. Marketable Securities | | | |
| 1. For entities in industries not having certain specialized practices for marketable securities: | | | |
| a. Are the carrying amounts of the marketable equity securities portfolios (current and noncurrent) each at the lower of aggregate cost or market? [SFAS 12, pars. 8 & 15 (AC I89.102 and .109)] | _____ | _____ | _____ |
| b. Is the amount by which aggregate cost exceeds aggregate market value of a portfolio accounted for as a valuation allowance? [SFAS 12, par. 8 (AC I89.102); FASBI 12; FASBI 13 (AC I89.120-.122)] | _____ | _____ | _____ |
| c. Are changes in the valuation allowances appropriately accounted for? [SFAS 12, par. 11 (AC I89.105)] | _____ | _____ | _____ |
| d. Are realized gains and losses included in net income of the period in which they occur? [SFAS 12, par. 11 (AC I89.105)] | _____ | _____ | _____ |
| 2. Are marketable equity securities portfolios of consolidated affiliates appropriately treated in consolidation? [SFAS 12, pars. 9, 15 & 18-20 (AC I89.103, .109 and .112-.114); FASBI 13 (AC I89.120-.122)] | _____ | _____ | _____ |
| 3. If particular marketable securities for which changes in carrying amounts are included in stockholder's equity have declines in market value below cost, and the declines are "judged to be other than temporary," is the cost basis written down and the write down accounted for as a loss? [SFAS 12, par. 21 (AC I89.115); FASBI 11, (AC I89.115-.116)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 4. Are income tax effects for unrealized gains or losses on marketable securities recognized in conformity with SFAS 96? [SFAS 96 (AC I25)] | _____ | _____ | _____ |
| 5. For marketable equity securities do disclosures include: | | | |
| a. For each balance sheet presented, aggregate cost and market value (each segregated between current and noncurrent portfolios when applicable) with identification of which is the carrying amount? [SFAS 12, par. 12a (AC I89.106a)] | _____ | _____ | _____ |
| b. For the latest balance sheet presented, gross unrealized gains and gross unrealized losses (each segregated between current and noncurrent portfolios when applicable)? [SFAS 12, pars. 12b & 16a (AC I89.106b and .110a)] | _____ | _____ | _____ |
| c. The following information for each period for which an income statement is presented: | | | |
| (1) Net realized gain or loss included in determination of net income? | _____ | _____ | _____ |
| (2) Basis on which cost was determined in computing realized gain or loss (e.g., average cost, FIFO)? | _____ | _____ | _____ |
| (3) The change in valuation allowance(s) included in the equity section of the balance sheet during the period and when a classified balance sheet is presented, the amount of such change included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)] | _____ | _____ | _____ |
| 6. Are significant net realized and net unrealized gains and losses that | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| arose after the latest balance sheet date but before issuance of the financial statements disclosed in the notes? [SFAS 12, pars. 13 & 17 (AC I89.107 and .111); FASBI 11 (AC I89.115-.116); FASBI 13 (AC I89.120-.122)] | — | — | — |
| 7. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure? [APB 12, par. 3 (AC V18.102)] | — | — | — |
| D. Receivables | | | |
| 1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)] | — | — | — |
| 2. Are unbilled receivables (e.g., unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4] | — | — | — |
| 3. Are unearned finance charges and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.105)] | — | — | — |
| 4. If a note is non-interest bearing or has an inappropriate stated interest rate: | | | |
| a. Is the discount or premium presented as a deduction from or addition to the face amount of the note? | — | — | — |
| b. Does the disclosure include the effective interest rate and face amount of the note? | — | — | — |
| c. Is amortization of discount or premium reported as interest in the income statement? [APB 21, par. 16 (AC I69.109)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 5. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that is being recognized as an adjustment of yield reported as part of the loan balance to which it relates? [SFAS 91, par. 21 (AC L20.120)] | — | — | — |
| 6. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)] | — | — | — |
| 7. For troubled debt restructurings are the following disclosed by major category of receivables as of each balance sheet presented: | | | |
| a. Aggregate recorded investment? | — | — | — |
| b. Gross interest income that would have been recorded if receivables had been current per their original terms? | — | — | — |
| c. Amount of interest income included in net income? | — | — | — |
| d. Amounts of any commitments to lend additional funds to debtors owing restructured troubled receivables? [SFAS 15, pars. 40-41 (AC D22.136-.137); TBS 79-6 & 79-7 (AC D22.501-.505)] | — | — | — |
| 8. For transfers of receivables with recourse that are reported as sales, are the following disclosed: | | | |
| a. The proceeds to the transferors during each period for which an income statement is presented? | — | — | — |
| b. The balance of the receivables transferred that remain uncollected at the date of each balance sheet presented, if such information is available? [SFAS 77, par. 9 (AC R20.109)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| E. Inventories | | | |
| 1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [ARB 43, Ch. 3A, pars. 4 & 9 (AC B05.105); ARB 43, Ch. 4, par. 3 (AC I78.102-.103)] | _____ | _____ | _____ |
| 2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9] | _____ | _____ | _____ |
| 3. Is the basis for stating inventory amount disclosed (e.g., lower of cost or market) and, if necessary, the nature of a change in basis for stating inventory, and the effect on income of such a change? [ARB 43, Ch. 4, pars. 4-16 (AC I78.104-.117 and .119-.120); APB 22, par. 13 (AC A10.106)] | _____ | _____ | _____ |
| 4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)] | _____ | _____ | _____ |
| F. Investments | | | |
| 1. Is the equity method used to account for investments in common stock of: | | | |
| a. Corporate joint ventures? [APB 18, par. 16 (AC I82.103)] | _____ | _____ | _____ |
| b. Investees in which the entity has "ability to exercise significant influence" (generally presumed to be 20% or more of the voting stock)? [APB 18, par. 17 (AC I82.104); FASBI 35, pars. 2-5 (AC I82.106-.108)] | _____ | _____ | _____ |
| 2. Is the equity method appropriately applied? [APB 18, par. 19 (AC I82.109); TB 79-19, par. 6 (AC I82.514)] | _____ | _____ | _____ |
| 3. Are the appropriate disclosures made for investments in common stock ac- | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| counted for by the equity method? [APB 18, par. 20 (AC I82.110)] | — | — | — |
| G. Property and Equipment | | | |
| 1. For depreciable assets, do the financial statements or notes thereto include disclosure of: | | | |
| a. Depreciation expense for each period? [APB 12, par. 5a (AC D40.105a)] | — | — | — |
| b. Balances of major classes of depreciable assets by nature or function? [APB 12, par. 5b (AC D40.105b)] | — | — | — |
| c. Accumulated depreciation, either by major classes of assets or in total? [APB 12, par. 5c (AC D40.105c)] | — | — | — |
| d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)] | — | — | — |
| e. Investment credit, the method followed and amounts involved when material? [APB 4, par. 11 (AC I32.103); FASBI 25 (AC B50.153-.154, I32.107, .114-.115, .117-.120 and I37.109)] | — | — | — |
| 2. Are net assets and liabilities of discontinued segments segregated from the assets and liabilities of continuing operations? [APB 30, par. 18d (AC I13.108d)] | — | — | — |
| 3. Are capitalized interest costs appropriately determined and reported? [SFAS 34, pars. 6-23 (AC I67.102-.103, .105-.107 and .109-.118) as amended by SFAS 42, par. 4 (AC I67.104); SFAS 58, pars. 5-7 (AC I67.105c, .106c-.106e and .117); SFAS 62, par. 5 (AC I67.106)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| H. Lessors | | | |
| 1. For sales-type and direct financing leases do disclosures include: | | | |
| a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented? | _____ | _____ | _____ |
| b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented? | _____ | _____ | _____ |
| c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a (AC L10.119a)] | _____ | _____ | _____ |
| d. For direct financing leases, the amount of initial direct costs as part of the investment? [SFAS 91, par. 25d (AC L10.119(a)(1))] | _____ | _____ | _____ |
| 2. For operating leases do disclosures include: | | | |
| a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented? | _____ | _____ | _____ |
| b. Minimum future rentals on non-cancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years? | _____ | _____ | _____ |
| c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)] | _____ | _____ | _____ |
| 3. Do disclosures include a general description of the lessor's leasing | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| arrangements? [SFAS 13, par. 23c (AC L10.119c); For amendments of SFAS 13 see SFASs 22, 23, 26, 27, 28 and 29; for inter- pretations see FASBIs 19, 21, 23, 24, 26 and 27; for Technical Bulletins see TBs 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17, 79-18 and 88-1] | — | — | — |
| 4. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41-47 (AC L10.143-.149)] | — | — | — |
| I. Other Assets and Deferred Charges (See Exhibit B) | | | |
| 1. Are the costs of intangible assets ac- quired from other entities recorded as assets? [APB 17, pars. 24-26 (AC I60.105-.107)] | — | — | — |
| 2. Are the costs of developing, maintaining or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred? [APB 17, par. 24 (AC I60.105)] | — | — | — |
| 3. Are issue costs of debt reported as deferred charges? [APB 21, par. 16 (AC I69.109)] | — | — | — |
| 4. Do disclosures include the method and period of amortization? [APB 17, pars. 27-31 (AC I60.108-.112); APB 22, par. 13 (AC A10.106)] | — | — | — |
| 5. Have deferred tax assets been recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years: | | | |
| a. To reduce a current deferred tax liability? | — | — | — |
| b. To reduce taxes paid in the current or a prior year? [SFAS 96, par. 17e (AC I25.116e)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 6. Have deferred tax assets been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)] | — | — | — |
| 7. Have deferred tax assets attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)] | — | — | — |
| 8. Have the types of temporary differences that give rise to significant portions of a deferred tax assets been disclosed? [SFAS 96, par. 24 (AC I25.123)] | — | — | — |
| 9. Have deferred tax assets been classified in two categories--the current amount and the noncurrent amount--in a classified statement of financial position? [SFAS 96, par. 24 (AC I25.123)] | — | — | — |
| 10. Is the current amount of a deferred tax asset the net deferred tax consequence of: | | | |
| a. Temporary differences that will result in net taxable or deductible amounts during the next year? | — | — | — |
| b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year? | — | — | — |
| c. Temporary differences for which there is no related identifiable asset or liability for financial reporting [SFAS 96, par. 12 (AC I25.111)] whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)] | — | — | — |
| 11. For computer software to be sold, leased, or otherwise marketed: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Are costs charged to research and development expense before technological feasibility has been established? [SFAS 86, par. 3 (AC Co2.102)] | — | — | — |
| b. Are costs charged to an asset after technological feasibility has been established? [SFAS 86, par. 4-6 (AC Co2.103-.105)] | — | — | — |
| c. Is the amount of unamortized cost disclosed for each balance sheet presented? [SFAS 86, par. 11a (AC Co2.110a)] | — | — | — |
| d. Is the amount charged to expense for amortization of these costs and for amounts written down to net realizable value disclosed for each income statement presented? [SFAS 86, par. 11b (AC Co2.110b)] | — | — | — |
| 12. Has an asset (prepaid pension cost) been recognized if net periodic pension cost is less than amounts the employer has contributed to the plan? [SFAS 87, pars. 35 & 38 (AC P16.129 and .132)] | — | — | — |
| 13. If an additional minimum liability has been recognized pursuant to SFAS 87, paragraph 36 [AC P16.130], has an equal amount been recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost? [SFAS 87, pars. 37-38 (AC P16.131-.132)] | — | — | — |
| J. Current Liabilities | | | |
| 1. Do current liabilities include: | | | |
| a. Obligations for items which have entered the operating cycle? | — | — | — |
| b. Collections received in advance of the delivery of goods or performance of services? | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| c. Debts which arise from operations directly related to the operating cycle? | — | — | — |
| d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period? | — | — | — |
| e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and .118)] | — | — | — |
| 2. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8-14 (AC B05.112-.116); FASBI 8 (AC B05.117 and .138-.139)] | — | — | — |
| K. Notes Payable and Other Debt | | | |
| 1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends? [APB Statement 4, par. 199, R-9A; SFAS 5, pars. 18-19 (AC C59.120)] | — | — | — |
| 2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)] | — | — | — |
| 3. If the note is noninterest bearing or has an inappropriate stated interest rate: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Is the discount or premium presented as a deduction from or addition to the face amount of the note? | _____ | _____ | _____ |
| b. Does the disclosure include the effective interest rate and face amount of the note? | _____ | _____ | _____ |
| c. Is amortization of the discount or premium reported as interest in the income statement? | _____ | _____ | _____ |
| d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)] | _____ | _____ | _____ |
| 4. Are conversion features appropriately accounted for and disclosed? [APB 14, pars. 12 & 16-18 (AC D10.103 and .105-.107); APB 15, par. 19 (AC E09.110)] | _____ | _____ | _____ |
| 5. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109)] | _____ | _____ | _____ |
| 6. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include: | | | |
| a. General description of the financing agreement? | _____ | _____ | _____ |
| b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)] | _____ | _____ | _____ |
| 7. For troubled debt restructuring occurring during the current period do disclosures include: | | | |
| a. Description of the principal changes in terms, the major features of settlement, or both? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| b. Aggregate gain on restructuring of payables and the related income tax effect? | — | — | — |
| c. Aggregate net gain or loss on transfers of assets recognized during the period? | — | — | — |
| d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)] | — | — | — |
| 8. For periods after a troubled debt restructuring, do disclosures include: | | | |
| a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables? | — | — | — |
| b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)] | — | — | — |
| 9. Has debt, as required, been considered extinguished for financial reporting purposes because: | | | |
| a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee? | — | — | — |
| b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A); TB 85-2 (AC C30)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 10. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount: | | | |
| a. Recognized currently in income? [APB 26, pars. 20-21 (AC D14.103-.104); TB 80-1, pars. 3-4 (AC D14.503-.504); SFAS 84, par. 5 (AC D14.101)] | — | — | — |
| b. Identified as a separate or extraordinary item? [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)] | — | — | — |
| 11. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, do the disclosures include: | | | |
| a. A general description of the transaction? | — | — | — |
| b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 3c (AC D14.102Ac)] | — | — | — |
| 12. Are long-term obligations that are or will be callable by the creditor either because the debtor's violation of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, classified as current unless one of the following conditions is met: | | | |
| a. Has the creditor waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date? | — | — | — |
| b. If the obligation contains a grace period within which the debtor may cure the violation, is it probable that the violation will be cured within that period, thus preventing the violation | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| from becoming callable? [SFAS 78, par. 5 (AC B05.109A and .118)] | — | — | — |
| L. Lessees | | | |
| 1. For capital leases do disclosures include: | | | |
| a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)-(4))] | — | — | — |
| b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 & 16a (AC L10.106 and .112a(1)-(4))] | — | — | — |
| c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)-(4))] | — | — | — |
| d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)-(4)) amended 10/1/79 by SFAS 29, par. 12] | — | — | — |
| e. Assets recorded under capital leases and the related accumulated amortization and obligations under the lease that should be identified separately in the balance sheet or a footnote? [SFAS 13, par. 13 (AC L10.112a (5))] | — | — | — |
| 2. For operating leases that have initial or remaining noncancelable lease terms | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| in excess of one year do disclosures include: | | | |
| a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years? | _____ | _____ | _____ |
| b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)] | _____ | _____ | _____ |
| 3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)] | _____ | _____ | _____ |
| 4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to: | | | |
| a. Bases for determination of contingent rentals? | _____ | _____ | _____ |
| b. Terms of any renewal or purchase options or escalation clauses? | _____ | _____ | _____ |
| c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); For amendments of SFAS 13 see SFASs 22, 23, 26, 27, 28 and 29; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for Technical Bulletins see TBS 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17, 79-18 and 88-1] | _____ | _____ | _____ |
| M. Other Liabilities and Deferred Credits (See Exhibit B) | | | |
| 1. Have deferred tax liabilities been recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par.17f-h (AC I25.116f-h)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Has a deferred tax liability been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)] | ___ | ___ | ___ |
| 3. Have deferred tax liabilities attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)] | ___ | ___ | ___ |
| 4. Have the types of temporary differences that give rise to significant portions of a deferred tax liability been disclosed? [SFAS 96, par. 24 (AC I25.123)] | ___ | ___ | ___ |
| 5. Have deferred tax liabilities been classified in two categories--the current amount and the noncurrent amount--in a classified statement of financial position? [SFAS 96, par. 24 (AC I25.123)] | ___ | ___ | ___ |
| 6. Is the current amount of a deferred tax liability the net deferred tax consequence of: | | | |
| a. Temporary differences that will result in net taxable or deductible amounts during the next year? | ___ | ___ | ___ |
| b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year? | ___ | ___ | ___ |
| c. Temporary differences for which there is no related identifiable asset or liability for financial reporting (SFAS 96, par. 12 [AC I25.111]) whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)] | ___ | ___ | ___ |
| 7. Has the following information been disclosed whenever a deferred tax liability is not recognized for any of the areas | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| addressed by APB 23 [AC I25 & I42] or for deposits in statutory reserve funds by U.S. steamship enterprises: | | | |
| a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable? | _____ | _____ | _____ |
| b. The cumulative amount of each type of temporary difference? | _____ | _____ | _____ |
| c. The amount of the unrecognized deferred tax liability for any unremitted earnings if determination of that liability is practicable or a statement that determination is not practicable and the amount of withholding taxes payable upon remittance of those earnings? | _____ | _____ | _____ |
| d. The amount of the unrecognized deferred tax liability for temporary differences other than unremitted earnings (that is, the bad debt reserve of a stock or mutual savings and loan association or a mutual savings bank, the policy holder's surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise)? [SFAS 96, par. 25 (AC I25.124)] | _____ | _____ | _____ |
| 8. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 [AC C59] and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and .124-.127)] | _____ | _____ | _____ |
| 9. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6-7 (AC C44.104 and .108)] | _____ | _____ | _____ |
| 10. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 11. Has a liability (unfunded accrued pension cost) been recognized if net periodic pension cost recognized, pursuant to SFAS 87 [AC P16], exceeds amounts the employer has contributed to the plan? [SFAS 87, pars. 35 & 38 (AC P16.129 and .132)] | — | — | — |
| 12. If the accumulated benefit obligation exceeds the fair value of the pension plan's assets, has the employer recognized, in the statement of financial position, a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation? [SFAS 87, pars. 36 & 38 (AC P16.130 and .132)] | — | — | — |
| 13. Has an additional minimum liability been recognized in accordance with the provisions of SFAS 87, paragraph 36? [SFAS 87, pars. 36 & 38 (AC P16.130 and .132)] | — | — | — |
| N. Stockholders' Equity | | | |
| 1. For each class of stock do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share? [APB Statement 4, par. 199, R-9A] | — | — | — |
| 2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example: dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights? [APB 15, par. 19 (AC E09.110)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. Are liquidation preferences of preferred stock issues prominently disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)] | — | — | — |
| 4. For preferred stock do disclosures include: | | | |
| a. Aggregate or per share amounts at which shares may be called or are subject to redemption? [APB 10, par. 11 (AC C16.102)] | — | — | — |
| b. Aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 15, par. 50, footnote 16 (AC C16.102)] | — | — | — |
| 5. For stock option and stock purchase plans, do disclosures include: | | | |
| a. Number of shares under option? | — | — | — |
| b. Option price? | — | — | — |
| c. Number of shares as to which options are exercisable? | — | — | — |
| d. For shares exercised, the number of shares exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123); APB 25, par. 19; FASBI 28 (AC C47.119-.122 and .138-.146); TB 82-2, pars. 10-12 (AC C47.513-.515); FASBI 38 (AC C47.135A-.135E)] | — | — | — |
| 6. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC R70.103)] | — | — | — |
| 7. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18-19 (AC C59.120)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 8. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)] | — | — | — |
| 9. Are stock subscriptions receivable appropriately identified and presented as a deduction from capital, or, if presented as an asset, stated separately, clearly labeled, and their status clearly described to distinguish them from any other type of assets? | — | — | — |
| 10. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10c (AC C32.105c)] | — | — | — |
| O. Changes in Stockholders' Equity | | | |
| 1. Are changes in the separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)] | — | — | — |
| 2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)] | — | — | — |
| 3. Are prior period adjustments limited to: | | | |
| a. Correction of an error(s) in financial statements of prior periods? | — | — | — |
| b. Adjustments resulting from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries? [SFAS 16, par. 11 (AC A35.103)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 4. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)] | — | — | — |
| 5. For a correction of an error are the following disclosed in the period in which the error was discovered and corrected: | | | |
| a. Nature of the error in previously issued financial statements? | — | — | — |
| b. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable)? [APB 20, par. 37 (AC A35.105)] | — | — | — |
| 6. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 [AC P16.130], exceeds unrecognized prior service cost, has the excess (which would represent a net loss not yet recognized as net periodic pension cost) been reported as a separate component (that is, a reduction) of equity, net of any tax benefits that result from considering such losses as timing differences for purposes of applying the provisions of APB 11? [SFAS 87, par. 37 (AC P16.131)] | — | — | — |

.06 Income Statement

A. Revenue and Expenses

| | | | |
|---|---|---|---|
| 1. Are the important components of income separately disclosed, such as sales or other sources of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes? [APB Statement 4, Ch. 7, par. 198] | — | — | — |
| 2. Is revenue recognized when a sale is effected (in contrast to the installment method) with appropriate provision for uncollectible accounts? [APB 10, par. 12 (AC R75.101 and .103)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. For long-term construction-type contracts is the method of income recognition (percentage-of-completion or completed-contract) disclosed? [ARB 45, par. 15 (AC Co4.110 and .112); APB 22, par. 13 (AC A10.106)] | — | — | — |
| 4. For marketable equity securities are the following disclosed for each period for which an income statement is presented: | | | |
| a. Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)] | — | — | — |
| b. For entities with certain specialized accounting practices, the change in net unrealized gain or loss? [SFAS 12, par. 16b (AC I89.110b)] | — | — | — |
| c. Basis on which cost was determined in computing realized gain or loss? [SFAS 12, par. 12c (AC I89.106c)] | — | — | — |
| d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income? [SFAS 12, par. 12c (AC I89.106c)] | — | — | — |
| 5. For investments in common stock accounted for by the equity method: | | | |
| a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)] | — | — | — |
| b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c & 19d (AC I82.109c and .109d)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| c. Are income taxes of the investor's share of the investee's earnings appropriately accrued? [APB 24, pars. 7-10 (AC I42.114-.116 and .119); FASBI 29 (AC I42.117-.118)] | — | — | — |
| 6. Are research and development costs charged to expense when incurred and appropriately disclosed? [SFAS 2, pars. 12-13 & 15-16 (AC R50.108-.109); FASBI 4 (AC B50.151-.152); FASBI 6 (AC R50.105 and .114-.119); TB 79-2 (AC R50.501-.502); SFAS 68, par. 14 (AC R55.112); TB 84-1 (AC R55.501-.504); SFAS 86, par. 3 (AC Co2.102)] | — | — | — |
| 7. Is the amount of interest cost incurred disclosed in the statements or notes thereto, and for an accounting period in which some interest cost is capitalized, the total amount thereof that has been capitalized? [SFAS 34, par. 21 (AC I67.118)] | — | — | — |
| 8. Is discount or premium on notes receivable and payable amortized to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period (the interest method) and reported as interest? [APB 12, pars. 16-17 (AC I69.108); APB 21, pars. 15-16 (AC I69.108-.109)] | — | — | — |
| 9. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 91, par. 22 (AC L20.122)] | — | — | — |
| 10. Is amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income? [SFAS 91, par. 22 (AC L20.122)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 11. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)] | — | — | — |
| 12. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20-34, 39-53 and 77? ⁸ (See Exhibit A) [SFAS 87, pars. 20-34, 39-53 & 77 (AC P16.114-.128, .133-.138 and .141-.149)] | — | — | — |
| 13. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3-5 and 9-11? [SFAS 88, pars. 3-5 & 9-11 (AC P16.172, .177-.179 and .181)] | — | — | — |
| 14. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12-14? [SFAS 88, pars. 6 & 12-14 (AC P16.173 and .182-.184)] | — | — | — |
| a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7-8? [SFAS 88, pars. 7-8 (AC P16.174-.175)] | — | — | — |
| 15. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)] | — | — | — |

⁸Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The new pension rules apply primarily to companies offering defined benefit pension plans.

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 16. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9-10, 12-13 & 15 (AC P16.177, .179, .182-.183 and .185)] | — | — | — |
| 17. If there is a compensatory stock issuance plan: | | | |
| a. Is compensation expense accrued in the proper periods? [APB 25, pars. 12-15 (AC C47.112-.115); FASBI 38, pars. 2-6 (AC C47.135A-.135E)] | — | — | — |
| b. Are deferred income taxes recorded to recognize timing differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16-18 (AC C47.116-.118); TB 82-2, pars. 8 & 13 (AC C47.511 and .516)] | — | — | — |
| c. Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)] | — | — | — |
| 18. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6-8 (AC C38.101-.102)] | — | — | — |
| 19. For sales transactions in which the buyer has a right to return the product, is revenue recognized at time of sale only if all of the conditions specified in SFAS 48 are met? [SFAS 48, pars. 6-8 (AC R75.107-.109)] | — | — | — |
| 20. For sales transactions such as those in which the seller agrees to repurchase the product, has consideration been given to whether the transaction is a product financing arrangement? [SFAS 49, pars. 3-5 (AC D18.101-.103)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 21. For product financing arrangements that are in substance financing, is the transaction accounted for as a borrowing? [SFAS 49, pars. 8-9 (AC D18.106-.107)] | — | — | — |
| 22. For sales of real estate, other than retail land sales, is revenue recognized on the full accrual basis only if all the conditions in SFAS 66, paragraph 5 are met? [SFAS 66, par. 5 (AC Rel.105)] | — | — | — |
| 23. If the enterprise accounts for its obligation under a research and development arrangement as a contract to perform research and development for others under SFAS 68, is there disclosure of: | | | |
| a. The terms of significant agreements under the research and development arrangement as of the date of each balance sheet presented? | — | — | — |
| b. The amount of compensation earned or costs incurred under such contracts for each period for which an income statement is presented? [SFAS 68, par. 14 (AC R55.112)] | — | — | — |
| B. Income Taxes (See Exhibit A) | | | |
| 1. Has the fact that the entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities been disclosed? [SFAS 96, par. 24 (AC 125.123)] | — | — | — |
| 2. Has the amount of income tax expense or benefit been allocated to: | | | |
| a. Continuing operations? | — | — | — |
| b. Discontinued operations? | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. Extraordinary items? | ___ | ___ | ___ |
| d. The cumulative effect of accounting changes? | ___ | ___ | ___ |
| e. Prior period adjustments? | ___ | ___ | ___ |
| f. Gains and losses included in comprehensive income but excluded from net income? | ___ | ___ | ___ |
| g. Capital transactions? [SFAS 96, par. 26 (AC 125.125)] | ___ | ___ | ___ |
| 3. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto: | | | |
| a. Current tax expense or benefit? | ___ | ___ | ___ |
| b. Deffered tax expense or benefit exclusive of (f) below? | ___ | ___ | ___ |
| c. Investment tax credits? | ___ | ___ | ___ |
| d. Government grants (to the extent recognized as a reduction of income tax expense)? | ___ | ___ | ___ |
| e. The benefits of operating loss carryforwards? | ___ | ___ | ___ |
| f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC 125.126)] | ___ | ___ | ___ |
| 4. Has the nature of significant reconciling items been disclosed: [SFAS 96, par. 28 (AC 125.127)] | ___ | ___ | ___ |
| 5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [SFAS 96, par. 29 (AC 125.128)] | _____ | _____ | _____ |
| 6. If the enterprise is part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements: | | | |
| a. The amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented? | _____ | _____ | _____ |
| b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented? [SFAS 96, par. 30 (AC 125.129)] | _____ | _____ | _____ |
| 7. For the earliest year restated or for the year SFAS 96 [AC 125] is first adopted if no prior year is restated, has the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, except for any effects of the type required by SFAS 96 to be excluded from net income? [SFAS 96, par. 33] | _____ | _____ | _____ |
| 8. When initially presented, have the financial statements for the year SFAS 96 [AC 125] is first adopted, disclosed the following: | | | |
| a. The effect of adopting SFAS 96 [AC 125] on income from continuing operations, income before extraordinary items, and | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| on net income for the year of adoption if restated financial statements for the prior year are not presented? | ___ | ___ | ___ |
| b. The effect of any restatement on income from continuing operations, income before extraordinary items, and on net income for each year presented? [SFAS 96, par. 34] | ___ | ___ | ___ |
| C. Discontinued Operations | | | |
| 1. Are operations of a segment that has been discontinued or is the subject of a formal plan for disposition: | | | |
| a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 & 13-18 (AC I13.101-.103, .105-.106 and .108-.109)] | ___ | ___ | ___ |
| b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 AC I13.105)] | ___ | ___ | ___ |
| 2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8 & 13-18 (AC I13.101-.103, .105-.106 and .108-.109)] | ___ | ___ | ___ |
| 3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)] | ___ | ___ | ___ |
| 4. For the period encompassing the measurement date, do notes to financial statement disclose: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Identity of the segment discontinued? | — | — | — |
| b. Expected disposal date, if known? | — | — | — |
| c. Expected manner of disposal? | — | — | — |
| d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date? | — | — | — |
| e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date? [APB 30, par. 18 (AC I13.108-.109)] | — | — | — |
| 5. For periods after the measurement date and including the disposal, do notes to financial statements disclose the information required for the period encompassing the measurement date and the actual date and results of disposal compared with the prior estimates? [APB 30, par. 18 (AC I13.108-.109)] | — | — | — |
| D. Extraordinary Items | | | |
| 1. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence? [APB 30, pars. 19-24 (AC I17.106-.111 and .118)] | — | — | — |
| 2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10-12 (AC I17.102-.103)] | — | — | — |
| 3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)] | _____ | _____ | _____ |
| 5. Are material events or transactions that are either unusual in nature, or of infrequent occurrence but not both (and therefore not meeting criteria for extraordinary items): | | | |
| a. Reported as a separate component of income from continuing operations? | _____ | _____ | _____ |
| b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I28.512)] | _____ | _____ | _____ |
| 6. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include: | | | |
| a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources? | _____ | _____ | _____ |
| b. Income tax effect in the period of extinguishment? | _____ | _____ | _____ |
| c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, pars. 8-10 (AC I17.104 and D14.105-.107)] | _____ | _____ | _____ |
| 7. For an adjustment of an extraordinary item reported in a prior period: | | | |
| a. Is the adjustment classified separately as an extraordinary item in the current period? | _____ | _____ | _____ |
| b. Are the nature, origin, and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)] | _____ | _____ | _____ |

Yes No N/A

E. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:
 - a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?
 - b. Transfers to and from accounts properly designated as appropriated retained earnings?
 - c. Adjustments made pursuant to a quasi-reorganization?
[APB 9, par. 28 (AC C08.101)]
2. Is earnings per share information, if required [SFAS 21 (AC E09.102)], presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation?
[APB 15 (AC E09); APB 20, pars. 19c, 33, 35 & 37 (AC A06.115c, .132, A35.105 and .113); APB 30, pars. 9 & 12 (AC E09.104, I13.107 and I17.103); FASBI 28, par. 6 (AC E09.128); FASBI 31 (AC E09.128-.131 and .169-.176); FASBI 38, par. 7 (AC E09.130A); SFAS 85, par. 3 (AC E09.123A)]

.07 Statement of Cash Flows

A. Format

1. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented?
[SFAS 95, par. 3 (AC C25.101)]
2. Does statement of cash flows explain effect of cash flows by showing change in cash and cash equivalents?
[SFAS 95, par. 7 (AC C25.105)]
3. Is policy for defining what is a cash equivalent disclosed?
[SFAS 95, par. 10 (AC C25.108)]

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 4. Are major classes of gross cash receipts and gross cash payments and their arithmetic sum—the net cash flow from operating activities (the direct method) presented in the statement? [SFAS 95, par. 27 (AC C25.125)] | — | — | — |
| 5. If the direct method of reporting net cash flow from operating activities is used, has a reconciliation of net income to net cash flow from operating activities been provided in a separate schedule? [SFAS 95, par. 30 (AC C25.128)] | — | — | — |
| 6. If the direct method of reporting net cash flow from operating activities is not used, has the same amount for net cash flow from operating activities been reported indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method)? [SFAS 95, par. 28 (AC C25.126)] | — | — | — |
| 7. If the indirect method of reporting net cash flow from operating activities is used, has the reconciliation of net income to net cash flow from operating activities been reported either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)] | — | — | — |
| B. Content | | | |
| 1. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities: | | | |
| a. Receipts from collections or sales of loans? | — | — | — |
| b. Receipts from sales of property? | — | — | — |
| c. Loans to members? | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| d. Payments to acquire property? [SFAS 95, pars. 16-17 (AC C25.114-.115)] | — | — | — |
| 2. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)] | — | — | — |
| 3. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities: | | | |
| a. Proceeds from issuing debt? | — | — | — |
| b. Repayments of amounts borrowed? [SFAS 95, pars. 19-20 (AC C25.117-.118)] | — | — | — |
| 4. Are cash receipts and cash payments from financing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)] | — | — | — |
| 5. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities: | | | |
| a. Interest received on loans? | — | — | — |
| b. Insurance proceeds except those directly related to investing or financing activities? | — | — | — |
| c. Interest paid to creditors? | — | — | — |
| d. Payments to suppliers and employees? | — | — | — |
| e. Payments to governments for taxes, duties, fines, and other fees or penalties? | — | — | — |
| f. Payments to settle lawsuits? | — | — | — |
| g. Contributions to charities? [SFAS 95, pars. 22-23 (AC C25.120-.121)] | — | — | — |
| 6. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 7. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)] | _____ | _____ | _____ |
| .08 Exhibit A - Accounting for Income Taxes: The effective date of SFAS 96 [AC 125], shall be for fiscal years beginning after December 15, 1991 with earlier application encouraged. Until such time, the following disclosures remain in effect: | | | |
| A. Marketable Securities | | | |
| 1. Are income tax effects for unrealized gains or losses on marketable securities: | | | |
| a. Recognized in conformity with APB 11 (AC I24)? | _____ | _____ | _____ |
| b. For unrealized capital losses are tax benefits recognized only when there is "assurance beyond a reasonable doubt" that the benefit will be realized by an offset of loss against capital gains? [SFAS 12, par. 22 (AC I89.117)] | _____ | _____ | _____ |
| B. Other Assets and Deferred Charges | | | |
| 1. Are deferred charges related to income tax timing differences segregated into appropriate current and noncurrent classifications? [APB 11, par. 57 as amended by SFAS 37, par. 4 (AC I28.102)] | _____ | _____ | _____ |
| C. Other Liabilities and Deferred Credits | | | |
| 1. Are deferred credits related to income tax timing differences segregated into appropriate current and noncurrent classifications? [APB 11, par. 57 as amended by SFAS 37, par. 4 (AC I28.102)] | _____ | _____ | _____ |
| 2. If the entity recognized investment tax credits by the flow-through method, is the reduction in the tax basis of an | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| asset caused by the investment tax credit reflected as a timing difference when computing deferred taxes? [TB 83-1, par.4 (AC I32.517)] | — | — | — |
| D. Income Taxes | | | |
| 1. Are the components of income tax expense disclosed (tax expense estimated to be currently payable, tax effects of timing differences, and tax effects of operating losses, adjustments of prior periods, and direct entries to stockholders' equity accounts) and allocated to: | | | |
| a. Income before extraordinary items? | — | — | — |
| b. Extraordinary items? [APB 11, pars. 60 & 62 (AC I28.106, .108 and .503)] | — | — | — |
| 2. Are tax benefits realized from operating loss carryforwards reported as an extraordinary item in the period realized? [APB 11, par. 61 (AC I17.116)] | — | — | — |
| 3. Do disclosures regarding income taxes include: | | | |
| a. Amounts of any unused operating loss carryforwards together with expiration dates (including separate identification of amounts that upon recognition would be credited to deferred taxes)? | — | — | — |
| b. Significant amounts of any other unused deductions and/or credits together with expiration dates? | — | — | — |
| c. Reasons for variations in customary relationship between income tax expense and pretax accounting income? [APB 11, par. 63 (AC I28.109); SFAS 31, par. 7 (AC I41.133); TB 82-1, par. 5 (AC I28.511)] | — | — | — |
| 4. Do disclosures regarding the investment tax credit include: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. The accounting method used and amounts involved? | _____ | _____ | _____ |
| b. Amounts of any unused investment credits? | _____ | _____ | _____ |
| [APB 4, par. 11 (AC I32.103); FASBI 25 (AC B50.153-.154, I32.107, .109, .114-.115, and .117-.120); TB 81-2, par. 4 (AC B50.650 and I32.502)] | | | |
| 5. If the entity is a subchapter S corporation, partnership or unincorporated proprietorship, do disclosures explain why income tax expense is not provided? | _____ | _____ | _____ |

Specialized Industries

.01 The following FASB Statements and Interpretations relate in whole or in part to specialized industries. To the extent they relate to specialized industries, they are not included in these Disclosure Checklists. Users of the checklists should refer directly to applicable authoritative pronouncements when reporting on a specialized industry.

.02 FASB Statements Related to Specialized Accounting and Reporting Principles and Practices

| | |
|---------|---|
| SFAS 12 | "Accounting for Certain Marketable Securities" |
| SFAS 19 | "Financial Accounting and Reporting by Oil and Gas Producing Companies" |
| SFAS 25 | "Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies" |
| SFAS 35 | "Accounting and Reporting by Defined Benefit Pension Plans" |
| SFAS 44 | "Accounting for Intangible Assets of Motor Carriers" |
| SFAS 45 | "Accounting for Franchise Fee Revenue" |
| SFAS 50 | "Financial Reporting in the Record and Music Industry" |
| SFAS 51 | "Financial Reporting by Cable Television Companies" |
| SFAS 53 | "Financial Reporting by Producers and Distributors of Motion Picture Films" |
| SFAS 60 | "Accounting and Reporting by Insurance Enterprises" |
| SFAS 61 | "Accounting for Title Plant" |
| SFAS 63 | "Financial Reporting by Broadcasters" |
| SFAS 65 | "Accounting for Certain Mortgage Banking Activities" |
| SFAS 66 | "Accounting for Sales of Real Estate" |

| | |
|---------|--|
| SFAS 67 | "Accounting for Costs and Initial Rental Operations of Real Estate Projects" |
| SFAS 69 | "Disclosures about Oil and Gas Producing Activities" |
| SFAS 71 | "Accounting for the Effects of Certain Types of Regulation" |
| SFAS 72 | "Accounting for Certain Acquisitions of Banking or Thrift Institutions" |
| SFAS 73 | "Reporting a Change in Accounting for Railroad Track Structures" |
| SFAS 75 | "Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units" |
| SFAS 86 | "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" |
| SFAS 87 | "Employers' Accounting for Pensions" |
| SFAS 88 | "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" |
| SFAS 90 | "Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs" |
| SFAS 92 | "Regulated Enterprises—Accounting for Phase-in Plans" |
| SFAS 93 | "Recognition of Depreciation by Not-for-Profit Organizations" |
| SFAS 97 | "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" |
| SFAS 98 | "Accounting for Leases: <ul style="list-style-type: none"> o Sale-Leaseback Transaction Involving Real Estate o Sales-Type Leases of Real Estate o Definition of the Lease Term o Initial Direct Cost of Direct Financing Leases" |

- SFAS 99 "Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations"
- SFAS 101 "Regulated Enterprises--Accounting for the Discontinuation of Application of FASB Statement No. 71"
- SFAS 102 "Statement of Cash Flows--Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale"

.03 FASB Interpretations Related to Industries Having Specialized Accounting and Reporting Principles and Practices

- Interpretation 9 "Applying APB Opinion Nos. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method: An Interpretation of APB Opinion Nos. 16 and 17"
- Interpretation 33 "Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method: An Interpretation of FASB Statement No. 34"
- Interpretation 36 "Accounting for Exploratory Wells in Progress at the End of a Period: An Interpretation of FASB Statement No. 19"

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

.02 Explanation of References:

SAS = Statement of Auditing Standards
AU = Reference to section number in
AICPA Professional Standards
(vol. 1) of SAS cited
SSARS = Statement on Standards for Ac-
counting and Review Services
AR = Reference to section number in
AICPA Professional Standards
(vol. 2) of SSARS cited

.03 Checklist Questionnaire

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. Does the auditor's report include appropriate: | | | |
| a. Addressee? [SAS 58, par. 9] | — | — | — |
| b. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 26, pars. 15-17 (AU 504.15-.17); SAS 58, par. 74] | — | — | — |
| 2. If the auditor is not independent, has the appropriate disclaimer been expressed regard- less of the extent of services provided? [SAS 1, sec. 220 (AU 220)] | — | — | — |
| a. For a public entity? [SAS 26, pars. 8-10 (AU 504.08-.10)] | — | — | — |
| b. For a nonpublic entity? [SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 3. Does the reporting language conform with the auditor's standard report on: | | | |
| a. Financial statements of a single year or period? [SAS 58, par. 8] | _____ | _____ | _____ |
| b. Comparative financial statements? [SAS 58, par. 8] | _____ | _____ | _____ |
| 4. Does the report include appropriate language in respect of the following: | | | |
| a. Report on only one basic financial statement and there are no scope limitations? [SAS 58, pars. 47-48] | _____ | _____ | _____ |
| b. Report on comparative statements of income, retained earnings, and changes in financial position without presentation of the comparative balance sheets for the prior years ended? [SAS 58, par. 9, footnote 7] | _____ | _____ | _____ |
| c. Part of examination was made by other independent auditors, and the principal auditors are indicating a division of responsibility for the examination in their report? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13] | _____ | _____ | _____ |
| d. Departure from a promulgated accounting principle when conformity would result in a misleading presentation? [SAS 58, pars. 14-15] | _____ | _____ | _____ |
| e. Report of a predecessor auditor for prior year has not been included with current comparative financial statements? [SAS 7 (AU 315); SAS 58, par. 83] | _____ | _____ | _____ |
| f. Updating of a previously issued opinion? [SAS 58, par. 78] | _____ | _____ | _____ |
| g. Comparative financial statements with differing opinions? [SAS 58, pars. 74-76] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| h. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14-17 (AU 504.14-.17)] | _____ | _____ | _____ |
| i. Decision to emphasize a matter? [SAS 58, par. 37)] | _____ | _____ | _____ |
| 5. Has explanatory language been added to the standard auditor's report if: | | | |
| a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16-33] | _____ | _____ | _____ |
| b. There is a substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par 12] | _____ | _____ | _____ |
| c. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34-36] | _____ | _____ | _____ |
| d. In an updated report on comparative financial statements the opinion(s) on the prior period(s) is different from the one(s) previously expressed? [SAS 58, pars. 77, 78 and 81-83] | _____ | _____ | _____ |
| e. Selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed? [SAS 36 (AU 722)] | _____ | _____ | _____ |
| f. Supplementary information required by the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB) has been omitted, the presentation of such information departs materially from FASB or GASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubts about whether the supplementary information conforms to FASB or GASB guidelines? [SAS 52, par. 2] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| g. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8(AU 550)] | _____ | _____ | _____ |
| h. A matter regarding the financial statements needs to be emphasized? [SAS 58, par. 37] | _____ | _____ | _____ |
| 6. Has a qualified opinion or disclaimer of opinion been expressed if scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40-45; SAS 31, par. 22 (AU 326.23)] | _____ | _____ | _____ |
| 7. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present: | | | |
| a. Lack of conformity with generally accepted accounting principles (including inadequate disclosure)? [SAS 58, pars. 49-66; SAS 54, par. 18; SAS 32, par. 3 (AU 431.03); SAS 34, par. 11 (AU 340.11)] | _____ | _____ | _____ |
| b. Inadequate disclosure? [SAS 58, pars. 55-58] | _____ | _____ | _____ |
| 8. If a qualified opinion, adverse opinion disclaimer of opinion is expressed: | | | |
| a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 68 and 71] | _____ | _____ | _____ |
| b. Is the reporting language clear and appropriate for the - | | | |
| (1) Qualified opinion? [SAS 58, pars. 38-66] | _____ | _____ | _____ |
| (2) Adverse opinion? [SAS 58, pars. 67-69] | _____ | _____ | _____ |
| (3) Disclaimer of opinion? [SAS 58, pars. 70-72] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 9. Does the report include modification, if applicable, for the following: | | | |
| a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long-term investments? [SAS 58, par. 42] | — | — | — |
| b. Regulated companies? [SAS 1, sec. 544.02-.04 (AU 544.02-.04); SAS 14, pars. 2-8 (AU 621.02-.08)] | — | — | — |
| c. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)] | — | — | — |
| d. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)] | — | — | — |
| e. Limitations on scope of lawyer's response? [SAS 12, pars. 12-14 (AU 337.12-.14)] | — | — | — |
| f. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)] | — | — | — |
| g. Financial statements materially affected by an irregularity? [SAS 53, par. 26] | — | — | — |
| h. Illegal acts by clients? [SAS 54] | — | — | — |
| i. [Reserved] | | | |
| j. Segment information? [SAS 21 (AU 435)] | — | — | — |
| k. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)] | — | — | — |
| l. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| of the FASB Statement? [Interpretation 3 of SAS 1, sec. 410 (AU 9410.13-.15)] | — | — | — |
| 10. Has a piecemeal opinion been avoided? [SAS 58, par. 73; SAS 14, par. 12 (AU 621.12)] | — | — | — |
| 11. For special reports, have the provisions of SAS 14 and SAS 35 been complied with: | | | |
| a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 14, pars. 2-8 (AU 621.02-.08)] | — | — | — |
| b. Specified elements, accounts or items of a financial statement? [SAS 14, pars. 9-14 (AU 621.09-.14); SAS 35 (AU 622)] | — | — | — |
| c. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? [SAS 14, pars. 18-19 (AU 621.18-.19)] | — | — | — |
| d. Financial information that requires a prescribed form of auditor's report? [SAS 14, pars. 20-21 (AU 621.20-.21)] | — | — | — |
| 12. If information is to accompany the basic financial statements and auditor's report in an auditor- submitted document: | | | |
| a. Is there a clear distinction between the client's representations and auditor's representations? [SAS 29, par. 20 (AU 551.20)] | — | — | — |
| b. Does the auditor's report on the accompanying information: | | | |
| (1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole? | — | — | — |
| (2) Specifically identify the accompanying information? | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| (3) State that the accompanying information is presented for purposes of analysis and is not part of the basic financial statements? | — | — | — |
| (4) State whether the additional information has been subjected to the auditing procedures applied in auditing the basic financial statements and the appropriate expression or disclaimer? [SAS 29, pars. 6-11 (AU 551.06-.11)] | — | — | — |
| 13. If an auditor-submitted document with accompanying information (long-form report) is co-existing with a document that includes just the basic financial statements and auditor's report: | | | |
| a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [SAS 29, par. 21 (AU 551.21)] | — | — | — |
| b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)] | — | — | — |
| 14. If the document contains interim financial information, has the auditor's report been expanded if required? [SAS 36, pars. 24-30 (AU 722.24-.30)] | — | — | — |
| 15. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, has an opinion been disclaimed on such information unless it has been audited? [SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 553.08 and .11)] | — | — | — |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 16. If a report on internal accounting control is to be issued ¹ is the appropriate form used for: | | | |
| a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specific period of time? [SAS 30, pars. 37-46 (AU 642.37-.46)] | — | — | — |
| b. Report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47-53 (AU 642.47-.53)] | — | — | — |
| c. Report on all or part of an entity's system for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54-59 (AU 642.54-.59)] | — | — | — |
| d. Other special purpose reports on all or parts of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)] | — | — | — |
| 17. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditors' report indicate: | | | |

¹Material weaknesses in internal accounting control that have not been corrected before they come to the auditor's attention must be communicated, preferably in writing, to senior management and the board of directors or its audit committee. [SAS 20, par. 4 (AU 323.04)]

Yes No N/A

a. That they have examined and expressed an opinion on the complete financial statements?

b. The date of their report on the complete financial statements?

c. The type of opinion expressed?

d. Whether, in their opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?

[SAS 42, par. 5 (AU 552.05)]

18. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express an adverse opinion on the condensed financial statements because of inadequate disclosure?

[SAS 58, pars. 55 - 58; SAS 42, par. 7, footnote 6 (AU 552.07, footnote 6)]

19. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditors' report indicate the following:

a. That they have examined and expressed an opinion on the complete financial statements?

b. The type of opinion expressed?

c. The specific data on which they are reporting?

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| d. Whether, in their opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)] | ___ | ___ | ___ |
| 20. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)] | ___ | ___ | ___ |
| 21. If a U.S.-style report is modified to report on financial statements prepared in conformity with accounting principles generally accepted in another country that are intended for use only outside the United States, does the auditor's report: | | | |
| a. Identify the financial statements examined? | ___ | ___ | ___ |
| b. Refer to the note to the financial statements that describes the basis of presentation of the financial statements on which the auditor is reporting, including identification of the nationality of the accounting principles? | ___ | ___ | ___ |
| c. State that the examination was made in accordance with the auditing standards generally accepted in the United States (and, if appropriate with the auditing standards of the other country)? | ___ | ___ | ___ |
| d. Include a paragraph that expresses the auditor's opinion (or disclaims an opinion) on the following: | | | |
| (1) Whether the financial statements are presented in conformity with the basis of accounting described? ² | ___ | ___ | ___ |

²If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described, all of the substantive reasons for that conclusion would be disclosed in an additional explanatory paragraph(s) of the report, and the opinion paragraph should include appropriate modifying language as well as a reference to the explanatory(s). [SAS 51, par. 9 (AU 534.09)]

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| (2) Whether the disclosed basis of accounting used has been applied in a consistent manner? [SAS 51, par. 9 (AU 534.09)] | — | — | — |
| 22. If an independent auditor uses the auditor's standard report of another country when reporting on financial statements prepared for use in that country: | | | |
| a. Would such a report be used by auditors in that country in similar circumstances? | — | — | — |
| b. Does the auditor understand, and is he in a position to make, the attestations contained in such a report based on his knowledge of applicable legal responsibilities, in addition to the auditing standards and the accounting principles generally accepted in that country? | — | — | — |
| c. Has the auditor considered consulting with persons having expertise in the audit reporting practices of that country to attain the understanding needed to issue that country's standard report? [SAS 51, pars. 11-12 (AU 534.11-.12)] | — | — | — |
| 23. If a U.S. entity has prepared financial statements with U.S. generally accepted accounting principles (GAAP) and accounting principles generally accepted in another country, has the auditor included, in one or both reports, a statement that another report has been issued on the financial statements for the entity that has been prepared in accordance with accounting principles generally accepted in another country, with reference to a note describing significant differences between the accounting principles used and U.S. GAAP? [SAS 51, par. 13 (AU 534.13)] | — | — | — |
| 24. If reporting on the fair presentation of financial statements prepared in conformity with the accounting principles generally accepted in another country that will have more than limited distribution in the United States, has the auditor: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. Used the U.S. standard form of report [see SAS No. 58, par. 8, modified as appropriate [SAS 58, pars 49-66] because of departures from accounting principles generally accepted in the United States? ³ | — | — | — |
| b. Expressed an opinion, in a separate paragraph, on whether the financial statements are presented in conformity with accounting principles generally accepted in another country? [SAS 51, par. 14 (AU 534.14)] | — | — | — |
| 25. If reporting on the same set of financial statements prepared in conformity with accounting principles generally accepted in another country, that will have more than limited distribution in the United States, has the guidance in No. 21 above been followed for distribution outside the United States and No. 24 above for distribution in the United States? [SAS 51, par. 15 (AU 534.15)] | — | — | — |

³This does not apply to reports on financial statements of U.S. subsidiaries of foreign registrants presented in SEC filings of foreign parent companies where the subsidiaries' financial statements have been prepared on the basis of accounting principles used by the parent company.
[SAS 51, par. 14, footnote 2 (AU 534.14, footnote 2)]

Accountants' Reports on Compiled or
Reviewed Financial Statements of
Nonpublic Entities Checklist¹

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

.02 Explanation of References:

SSARS = Statement on Standards for Accounting
and Review Services

(AR) = Reference to section number in AICPA
Professional Standards (vol. 2) of
SSARS cited

.03 Checklist Questionnaire

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. Is the report appropriately worded? | ___ | ___ | ___ |
| a. For compiled financial statements does the report state that: | | | |
| o A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants? | ___ | ___ | ___ |

¹A nonpublic entity is any entity other than (a) one whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) one that makes filing with a regulatory agency in preparation for the sale of any class of its securities in a public market, or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b). [SSARS No. 1, "Financial Statements Included in SEC Filings," (AR section 9100.03-.05)]

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| o A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)? [See SSARS No. 3, par. 3 (AR 300.03) for different wording that may be used when the financial statements are included in a prescribed form and the form or related instructions call for departure from generally accepted accounting principles.] | — | — | — |
| o The financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them? [SSARS No. 1, par. 14 (AR 100.14); SSARS No. 5, par. 1 (AR 500.01)] | — | — | — |
| b. For reviewed financial statements does the report state that: | | | |
| o A review was performed in accordance with standards established by the American Institute of Certified Public Accountants? | — | — | — |
| o All information included in the financial statements is the representation of the management (owners) of the entity? | — | — | — |
| o A review consists principally of inquiries of company personnel and analytical procedures applied to financial data? | — | — | — |
| o A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed? | — | — | — |
| o The accountant is not aware of any material modification that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, with | | | |

Yes No N/A

another comprehensive basis of accounting, other than those modifications, if any, indicated in his report?
[SSARS No. 1, par. 32 (AR 100.32)]

— — —

c. For both compiled and reviewed financial statements, does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?
[SSARS No. 1, pars. 14 & 32 (AR 100.14 & .32)]

— — —

2. For compiled financial statements that contain departures² from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting:

a. If the departure is the omission in compiled financial statements of substantially all required disclosures does the accountant's report clearly indicate such omission?
[SSARS No. 1, pars. 19 & 21 (AR 100.19 & .21)]

— — —

b. If compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles include disclosures about only a few matters in the form of notes to such financial statements, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles (or, where applicable, another comprehensive basis of accounting) Are Not Included"?
[SSARS No. 1, par. 19 (AR 100.19)]

— — —

c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than generally accepted accounting principles, and if such financial statements do not

²Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS No. 3 [AR 300] compilation report on financial statements included in a prescribed form.

Yes No N/A

include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting?

[SSARS No. 1, par. 20 (AR 100.20)]

- d. If compiled financial statements contain another departure from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, did the accountants modify their report to disclose the departure?

[SSARS No. 1, par. 39 (AR 100.39)]

- (1) If yes, did the accountants' modified report disclose the departure in a separate paragraph?

[SSARS No. 1, par. 40 (AR 100.40)]

- (2) If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountants' procedures, are these effects also disclosed in the modified report?

[SSARS No. 1, par. 40 (AR 100.40)]

- (3) If the effects of the departure on the financial statements have not been determined, have the accountants stated this in their report?

[SSARS No. 1, par. 40 (AR 100.40)]

3. For reviewed financial statements that contain departures from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting (including the omission of required disclosures), did the accountants modify their report to disclose the departure?

[SSARS No. 1, par. 39 (AR 100.39)]

- a. If yes, did the accountants' modified report disclose the departure in a separate paragraph?

[SSARS No. 1, par. 40 (AR 100.40)]

- b. If the effects of the departure on the financial statements have been determined by management or are known as a result of the

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| accountants' procedures, are these effects also disclosed in the modified report? [SSARS No. 1, par. 40 (AR 100.40)] | _____ | _____ | _____ |
| c. If the effects of the departure on the financial statements have not been determined, have the accountants stated this in their report? [SSARS No. 1, par. 40 (AR 100.40)] | _____ | _____ | _____ |
| 4. If the accountants are not independent with respect to the entity for which they have compiled financial statements, did the accountants state in the last paragraph of their report, "we are not independent with respect to XYZ Company"? (The accountants are precluded from issuing a review report on the financial statements of an entity with respect to which they are not independent.) [SSARS No. 1, pars. 22 & 38 (AR 100.22 & .38)] | _____ | _____ | _____ |
| 5. Is the report dated? | _____ | _____ | _____ |
| 6. a. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountant's Compilation Report"? [SSARS No. 1, par. 16 (AR 100.16)] | _____ | _____ | _____ |
| or | | | |
| b. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountant's Review Report"? [SSARS No. 1, par. 34 (AR 100.34)] | _____ | _____ | _____ |
| 7. When accompanying information is presented with the financial statements, did the accountants clearly indicate their degree of responsibility with respect to such information as follows: | | | |
| a. If the basic financial statements were reviewed, was the degree of responsibility disclosed in the report or in a separate report on the other data that states: | | | |
| o The review has been made primarily for the purpose of expressing limited assurance that there are no material | | | |

Yes No N/A

modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, and either:

- o The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or

- o The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data?

[SSARS No. 1, par. 43 (AR 100.43)]

- b. If the accountant has compiled both the basic financial statements and other data which is presented for supplementary analysis purposes, does the compilation report also include the other data?

[SSARS No. 1, par. 43 (AR 100.43)]

- 8. If an audit engagement has been changed to a review or compilation, does the report omit reference to: a) the original engagement, b) any auditing procedures that may have been performed, c) any scope limitation that resulted in the changed engagement?

[SSARS No. 1, par. 49 (AR 100.49)]

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS No. 2, par. 2 (AR 200.02)] | — | — | — |
| 10. Is the report appropriate for the current status of the entity? [SSARS No. 2, pars. 31-32 (AR 200.31-.32)] | — | — | — |
| 11. Does each page of the comparative financial statements compiled or reviewed include a reference such as "See Accountant's Report"? [SSARS No. 2, par. 6 (AR 200.06)] | — | — | — |
| 12. If compiled financial statements which omit substantially all of the disclosures required by generally accepted accounting principles are included among the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph which indicates: | | | |
| o The nature of the previous service rendered (compilation, review, or audit)? | — | — | — |
| o Date of the previous report? | — | — | — |
| o Appropriate language in accordance with SSARS No. 1, paragraphs 19-20 and SSARS No. 2, paragraph 30? [SSARS No. 1, pars. 19-21 (AR 100.19-.21); SSARS No. 2, pars. 5 & 29-30 (AR 200.05 & .29-.30)] | — | — | — |
| 13. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated? [SSARS No. 2, pars. 8-10 (AR 200.08-.10)] | — | — | — |
| 14. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Does the report on the current period include a separate paragraph which describes the responsibility assumed for the prior period? | _____ | _____ | _____ |
| or | | | |
| b. Is the report on the current period accompanied by or combined with a reissued report on the financial statements of the prior period presented? [SSARS No. 2, pars. 8 & 11-12 (AR 200.08 & .11-.12)] | _____ | _____ | _____ |
| 5. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include: | | | |
| o The date of the previous report? | _____ | _____ | _____ |
| o Description of the circumstances or events underlying the change? | _____ | _____ | _____ |
| o Indication, if applicable, that the prior-period financial statements have changed? [SSARS No. 2, pars. 14-15 (AR 200.14-.15)] | _____ | _____ | _____ |
| 6. If the predecessor accountant does not reissue his compilation or review report on the prior-period financial statements, has the successor: | | | |
| a. Made appropriate reference in his report to the predecessor's report in accordance with SSARS No. 2? | _____ | _____ | _____ |
| or | | | |
| b. Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly? [SSARS No. 2, pars. 16-19 (AR 200.16-.19)] | _____ | _____ | _____ |
| 7. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as presented? [SSARS No. 2, pars. 25-26 (AR 200.25-.26)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 18. If the current-period financial statements were compiled or reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph which contains the following: | | | |
| o Statement that the prior-period financial statements were examined previously? | _____ | _____ | _____ |
| o Date of the previous report? | _____ | _____ | _____ |
| o Type of opinion expressed previously? | _____ | _____ | _____ |
| o If the opinion was other than unqualified, the substantive reasons therefor? | _____ | _____ | _____ |
| o That no auditing procedures were performed after the date of the previous report? | _____ | _____ | _____ |
| [SSARS No. 2, par. 28 (AR 200.28)] | | | |
| [For guidance on situations when the current period is audited and the prior period is compiled or reviewed, see Statement on Auditing Standards No. 26 (AU 504)] | | | |

Illustrative Financial Statements

Illustrative Independent Auditor's Report

We have audited the accompanying balance sheets of a Private Company and Subsidiaries as of December 31, 19X1 and 19X0, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of a Private Company and Subsidiaries as of December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

ILLUSTRATIVE BALANCE SHEET

A Private Company and Subsidiaries Consolidated Balance Sheet

December 19X1 and 19X0

| Assets | 19X1 | 19X0 |
|---|-----------|-----------|
| Current Assets: | | |
| Cash (including time deposits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0) | \$ XX,XXX | \$ XX,XXX |
| Restricted cash | XX,XXX | XX,XXX |
| Investments at cost, which approximates market | XX,XXX | XX,XXX |
| Accounts and notes receivable— | | |
| Trade | XX,XXX | XX,XXX |
| Notes receivable | XX,XXX | XX,XXX |
| Notes receivable from officer | XX,XXX | XX,XXX |
| | XX,XXX | XX,XXX |
| Less allowance for doubtful accounts | (XX,XXX) | (XX,XXX) |
| | XX,XXX | XX,XXX |
| Inventories at the lower of cost (first-in, first-out) or market— | XX,XXX | XX,XXX |
| Prepaid expenses and other current assets | XX,XXX | XX,XXX |
| Total current assets | XX,XXX | XX,XXX |
| Marketable securities, noncurrent at cost which approximates market | XX,XXX | XX,XXX |
| Property and Equipment, at cost: | | |
| Land | XX,XXX | XX,XXX |
| Buildings | XX,XXX | XX,XXX |
| Furniture and equipment | XX,XXX | XX,XXX |
| Construction in progress | XX,XXX | XX,XXX |
| | XX,XXX | XX,XXX |
| Less accumulated depreciation and amortization | (XX,XXX) | (XX,XXX) |
| Net property and equipment | XX,XXX | XX,XXX |
| Notes receivable, less current portion included above | XX,XXX | XX,XXX |
| Intangibles and Other Assets: | | |
| Excess of cost over carrying value of net assets acquired, less accumulated amortization of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 | XX,XXX | XX,XXX |
| Patents (net of amortization) | XX,XXX | XX,XXX |
| Other | XX,XXX | XX,XXX |
| Net intangibles and other assets | XX,XXX | XX,XXX |
| Total Assets | \$XX,XXX | \$XX,XXX |

The accompanying notes are an integral part of these financial statements.

| Liabilities | <u>19X1</u> | <u>19X0</u> |
|---|-------------------------|-------------------------|
| Current Liabilities: | | |
| Accounts payable | \$ XX,XXX | \$ XX,XXX |
| Notes payable | XX,XXX | XX,XXX |
| Accrued expenses | XX,XXX | XX,XXX |
| Federal and state income taxes payable | XX,XXX | XX,XXX |
| Current portion of long-term debt | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Total current liabilities | XX,XXX | XX,XXX |
| Long-Term Debt, less current portion included above | XX,XXX | XX,XXX |
| Deferred income taxes | <u>(XX,XXX)</u> | <u>(XX,XXX)</u> |
| Stockholders' Equity: | | |
| Common stock, \$100 par value; X,XXX shares authorized | | |
| Issued and outstanding—X,XXX shares in 19X1, X,XXX shares in 19X0 | XX,XXX | XX,XXX |
| Additional paid-in capital | XX,XXX | XX,XXX |
| Retained earnings | XX,XXX | XX,XXX |
| Valuation allowance for marketable equity securities | (XX,XXX) | (XX,XXX) |
| Cumulative foreign currency translation adjustment | <u>(XX,XXX)</u> | <u>(XX,XXX)</u> |
| Total stockholders' equity | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Total Liabilities and Stockholders' Equity | <u><u>\$ XX,XXX</u></u> | <u><u>\$ XX,XXX</u></u> |

The accompanying notes are an integral part of these financial statements.

ILLUSTRATIVE INCOME STATEMENT

A Private Company and Subsidiaries Consolidated Statement of Operations

For the Years Ended December 31, 19X1 and 19X0

| | 19X1 | 19X0 |
|--|-------------------------|-------------------------|
| Net sales | \$ XX,XXX | \$ XX,XXX |
| Cost of goods sold | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Gross profit | XX,XXX | XX,XXX |
| Selling, general and administrative expenses | XX,XXX | XX,XXX |
| Research, development and engineering expenses | <u>XX,XXX</u> | <u>XX,XXX</u> |
| | XX,XXX | XX,XXX |
| Income from operations | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Other income (expense): | | |
| Dividend income | XX,XXX | XX,XXX |
| Interest income | XX,XXX | XX,XXX |
| Interest expense | (XX,XXX) | (XX,XXX) |
| Net realized gains on sale of marketable equity securities | XX,XXX | XX,XXX |
| Foreign currency gain (loss) | (XX,XXX) | (XX,XXX) |
| Gain due to fire loss | XX,XXX | — |
| Other | <u>XX,XXX</u> | <u>XX,XXX</u> |
| | (XX,XXX) | (XX,XXX) |
| Income before income taxes | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Provision for income taxes: | | |
| Current | XX,XXX | XX,XXX |
| Deferred | <u>(XX,XXX)</u> | <u>XX,XXX</u> |
| | XX,XXX | XX,XXX |
| Net Income | <u><u>\$ XX,XXX</u></u> | <u><u>\$ XX,XXX</u></u> |

The accompanying notes are an integral part of these financial statements.

ILLUSTRATIVE STATEMENT OF STOCKHOLDER'S EQUITY

A Private Company and Subsidiaries Consolidated Statement of Stockholder's Equity

For the Years Ended December 31, 19X1 and 19X0

| | <u>Common Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Valuation Allowance For Marketable Equity Securities</u> | <u>Cumulative Foreign Currency Translation Adjustment</u> | <u>Retained Earnings</u> |
|---|-----------------------------|---------------|---|---|---|------------------------------|
| | <u>Number of Shares</u> | <u>Amount</u> | | | | |
| Balance December 31, 19X9 | X,XXX | \$XX,XXX | \$XX,XXX | (\$XX,XXX) | (\$XX,XXX) | \$ XX,XXX |
| Net Income | | | | | | XX,XXX |
| Cash dividends, \$X per share | | | | | | (XX,XXX) |
| Foreign currency translation adjustment | | | | | (XX,XXX) | |
| Stock options exercised | X,XXX | X,XXX | X,XXX | | | |
| Decrease in unrealized losses on marketable equity securities | | | | X,XXX | | |
| Balance December 31, 19X0 | X,XXX | XX,XXX | XX,XXX | (XX,XXX) | (XX,XXX) | XX,XXX |
| Net Income | | | | | | XX,XXX |
| Cash dividends, \$X per share | | | | | | (XX,XXX) |
| Foreign currency translation adjustment | | | | | (X,XXX) | |
| Stock options exercised | X,XXX | X,XXX | X,XXX | | | |
| Increase in unrealized losses on marketable equity securities | | | | (X,XXX) | | |
| Two-for-one stock split | X,XXX | X,XXX | (X,XXX) | | | |
| Balance, December 31, 19X1 | X,XXX | \$XX,XXX | \$XX,XXX | \$(XX,XXX) | \$(XX,XXX) | \$XX,XXX |

The accompanying notes are an integral part of these financial statements.

ILLUSTRATIVE STATEMENT OF CASH FLOWS
(Direct Method)

A Private Company and Subsidiaries
Consolidated Statement of Cash Flows

For the Years Ended December 31, 19X1 and 19X0

| | 19X1 | 19X0 |
|---|-------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ XX,XXX | \$ XX,XXX |
| Proceeds from insurance due to fire loss | XX,XXX | — |
| Cash paid to suppliers | (XX,XXX) | (XX,XXX) |
| Interest paid | (XX,XXX) | (XX,XXX) |
| Taxes paid | (XX,XXX) | (XX,XXX) |
| Net cash provided by operating activities | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of marketable equity securities | XX,XXX | XX,XXX |
| Purchase of equipment | (XX,XXX) | (XX,XXX) |
| Net cash used in investing activities | <u>(XX,XXX)</u> | <u>(XX,XXX)</u> |
| Cash flows from financing activities: | | |
| Sale of capital stock from options exercised | XX,XXX | XX,XXX |
| Borrowing on long-term notes | XX,XXX | XX,XXX |
| Dividends paid | (XX,XXX) | (XX,XXX) |
| Net cash provided by financing activities | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Net increase in cash | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Cash at beginning of year | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Cash at the end of the year | <u><u>\$ XX,XXX</u></u> | <u><u>\$ XX,XXX</u></u> |
| Reconciliation of net income to net cash provided by operating activities: | | |
| Net income | \$ XX,XXX | \$ XX,XXX |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | XX,XXX | XX,XXX |
| Net realized gains on sale of marketable equity securities | (XX,XXX) | (XX,XXX) |
| Gain due to fire loss | (XX,XXX) | — |
| Foreign currency loss | XX,XXX | XX,XXX |
| Increase in accounts receivable | (XX,XXX) | (XX,XXX) |
| Increase in inventory | (XX,XXX) | (XX,XXX) |
| Increase in prepaid expenses | (XX,XXX) | (XX,XXX) |
| Increase in notes payable | — | XX,XXX |
| Increase in accounts payable | XX,XXX | XX,XXX |
| Increase in accrued interest and taxes | XX,XXX | XX,XXX |
| Decrease in other accrued liabilities | (XX,XXX) | (XX,XXX) |
| Total Adjustments | <u>XX,XXX</u> | <u>(XX,XXX)</u> |
| Net cash provided by operating activities | <u><u>\$ XX,XXX</u></u> | <u><u>\$ XX,XXX</u></u> |
| Supplemental schedule of noncash investing and financing activities: | | |
| Two-for-one stock split | \$ X,XXX | — |

The accompanying notes are an integral part of these financial statements.

ILLUSTRATIVE STATEMENT OF CASH FLOWS
(Indirect Method)

A Private Company and Subsidiaries
Consolidated Statement of Cash Flows

For the Years Ended December 31, 19X1 and 19X0

| | <u>19X1</u> | <u>19X0</u> |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Net income | \$ XX,XXX | \$ XX,XXX |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | XX,XXX | XX,XXX |
| Net realized gains on sale of marketable equity securities | (XX,XXX) | (XX,XXX) |
| Gain due to fire loss | (XX,XXX) | — |
| Foreign currency loss | XX,XXX | XX,XXX |
| Increase in accounts receivable | (XX,XXX) | (XX,XXX) |
| Increase in inventory | (XX,XXX) | (XX,XXX) |
| Increase in prepaid expenses | XX,XXX | XX,XXX |
| Increase in notes payable | — | XX,XXX |
| Increase in accounts payable | XX,XXX | XX,XXX |
| Increase in accrued interest and taxes | XX,XXX | XX,XXX |
| Decrease in other accrued liabilities | (XX,XXX) | (XX,XXX) |
| Total Adjustments | (XX,XXX) | (XX,XXX) |
| Net cash provided by operations | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of marketable equity securities | XX,XXX | XX,XXX |
| Purchase of equipment | (XX,XXX) | (XX,XXX) |
| Net cash used in investing activities | <u>(XX,XXX)</u> | <u>(XX,XXX)</u> |
| Cash flows from financing activities: | | |
| Sale of capital stock from options exercised | XX,XXX | XX,XXX |
| Borrowing on long-term notes | XX,XXX | XX,XXX |
| Dividends paid | (XX,XXX) | (XX,XXX) |
| Net cash provided by financing activities | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Net increase in cash | XX,XXX | XX,XXX |
| Cash at beginning of year | XX,XXX | XX,XXX |
| Cash at end of year | <u>\$ XX,XXX</u> | <u>\$ XX,XXX</u> |
| Supplemental schedule of noncash investing and financing activities: | | |
| Two-for-one stock split | \$ X,XXX | — |

The accompanying notes are an integral part of these financial statements.

Supplementary data:

| | | |
|-------------------|-------------------|-----------------|
| Interest paid | —19X1, \$ XX,XXX; | 19X0, \$ XX,XXX |
| Income taxes paid | —19X1, \$ XX,XXX; | 19X0, \$ XX,XXX |

Illustrative Notes to Financial Statements

Illustrative Note: Summary of Significant Accounting Policies

- **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, after elimination of all significant intercompany balances and transactions.

- **Translation of Foreign Financial Statements**

Assets and liabilities of most foreign operations are translated at year-end rates of exchange, and the income statements are translated at the average rates of exchange for the year. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of stockholder's equity until the entity is sold or substantially liquidated.

Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are generally included in net income. For operations in countries that have high rates of inflation (Brazil and Mexico), gains and losses from translating assets and liabilities at year-end rates of exchange, except for inventories and facilities, which are translated at historical rates, are included in net income.

- **Short-term Interest Bearing Investments**

Short-term interest bearing investments consist of certificates of deposit and other income producing securities of less than one-year maturity. These investments are readily convertible to cash and are stated at cost which approximates market.

- **Inventories**

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market, and include material, labor and factory overhead.

- **Property and Depreciation**

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

- **Income Taxes**

Deferred income taxes in the accompanying financial statements reflect temporary differences in reporting results of operations for income tax and financial accounting purposes.

- **Employee Benefits**

The Company and its consolidated subsidiaries have several defined benefit pension plans covering substantially all employees. The benefits are based on years of service and the employee's final average monthly compensation. The Company's funding policy is to contribute annually not less than the minimum required nor more than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only benefits attributed to service to date but also for those expected to be earned in the future.

- **Intangible Assets**

The excess of cost over carrying value of net assets acquired is being amortized on a straight-line basis over a forty-year period. The cost of patents acquired in connection with business acquisitions is amortized on a straight-line basis over the remaining economic life of the respective patents, but in no event longer than the remaining legal life.

Illustrative Note: Restricted Cash

At December 31, 19X1 and 19X0 cash in the amount of \$XX,XXX and \$XX,XXX, respectively, was restricted as to use. The amounts represent unexpended proceeds from industrial revenue obligations, which may be used only for the purchase of additional equipment.

Illustrative Note: Marketable Securities

Gross unrealized gains and losses on non-current marketable securities were as follows:

| | <u>19X1</u> | <u>19X0</u> |
|-------------------------|-------------|-------------|
| Gross unrealized gains | \$XX,XXX | \$XX,XXX |
| Gross unrealized losses | \$XX,XXX | \$XX,XXX |

Net realized gains of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 realized on the sale of marketable securities are included in the determination of net income. The cost of the securities sold was determined on the specific identification basis. Subsequent to December 31, 19X1, the Company had realized gains of \$XX,XXX before income taxes on the sale of marketable securities. The valuation allowance included in stockholder's equity increased \$XX,XXX during 19X1 and decreased \$XX,XXX during 19X0.

The current and non-current portfolios of marketable securities are each stated at the lower of aggregate cost or market value at the balance sheet date and consist of common and preferred stocks and notes. Dividend and interest income are accrued as earned.

Illustrative Note: Imputation of Interest on Note Receivable

The Company's note receivable is described below.

| | <u>19X1</u> | <u>19X0</u> |
|--|------------------------|------------------------|
| X% note, \$XX,XXX due monthly through June 30, 19X8 | \$XX,XXX | \$XX,XXX |
| Less unamortized discount based on imputed interest of X% | <u>XX,XXX</u> | <u>XX,XXX</u> |
| | XX,XXX | XX,XXX |
| Less current portion | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Note receivable long-term | <u><u>\$XX,XXX</u></u> | <u><u>\$XX,XXX</u></u> |

Illustrative Note: Inventories

Inventories at December 31, 19X1 and 19X0 consist of the following:

| | <u>19X1</u> | <u>19X0</u> |
|-----------------|------------------------|------------------------|
| Raw materials | \$XX,XXX | \$XX,XXX |
| Work in process | XX,XXX | XX,XXX |
| Finished goods | <u>XX,XXX</u> | <u>XX,XXX</u> |
| | <u><u>\$XX,XXX</u></u> | <u><u>\$XX,XXX</u></u> |

Illustrative Note: Prepayments and Other Current Assets

The components of prepayments and other current assets are summarized below at December 31, 19X1 and 19X0:

| | <u>19X1</u> | <u>19X0</u> |
|------------------------------------|------------------------|------------------------|
| Prepaid Insurance | \$ X,XXX | \$ X,XXX |
| Supplies & Maintenance | | |
| Contracts | XXX | XXX |
| Other | <u>XXX</u> | <u>XXX</u> |
| Total Prepayments and Other Assets | <u><u>\$XX,XXX</u></u> | <u><u>\$XX,XXX</u></u> |

Illustrative Note: Property, Plant and Equipment

Major classifications of property, plant and equipment and their respective lives are summarized below:

| | December 31 | | <u>Depreciable Lives</u> |
|-----------------------------------|-----------------|-----------------|--------------------------|
| | <u>19X1</u> | <u>19X0</u> | |
| Land | \$XX,XXX | \$XX,XXX | |
| Building | XX,XXX | XX,XXX | 25 Years |
| Furniture & Equipment | <u>XX,XXX</u> | <u>XX,XXX</u> | 5-10 Years |
| | \$XX,XXX | \$XX,XXX | |
| Accumulated Depreciation | <u>X,XXX</u> | <u>X,XXX</u> | |
| Net Property, Plant and Equipment | <u>\$XX,XXX</u> | <u>\$XX,XXX</u> | |

Property, plant and equipment includes capitalized lease obligations of \$X,XXX and \$XX,XXX and related accumulated depreciation of \$XXX and \$XXX at December 31, 19X1 and 19X0, respectively.

Illustrative Note: Cash Value Officer's Life Insurance

The Company maintains life insurance policies on certain of its officers and employees. The policies are of two types, split-dollar insurance and key-man insurance. Under the split-dollar insurance, the Company pays the premium and receives, upon termination of the policy or the death of the insured, the cash surrender value of the policy and the insured designates a beneficiary to receive the balance of benefits paid. Under the key-man insurance, the Company receives the cash surrender value, if the policy is terminated, or receives all benefits payable upon the death of the insured.

Illustrative Note: Intangible Assets

Intangibles relate to businesses acquired and consist principally of the acquisition costs allocated to patents and to the difference between purchase price and fair value at date of acquisition of net tangible assets acquired (goodwill). At December 31, 19X1 and 19X0, unamortized costs allocated to patents were \$X,XXX and \$X,XXX, respectively.

Patent amortization was \$XXX in 19X1 and \$XXX in 19X0. Amortization of goodwill was \$XX in 19X1 and \$XX in 19X0.

Illustrative Note: Short-term Obligations Expected to Be Refinanced

At December 31, 19X1, \$XX,XXX of short-term obligations have been classified as long-term debt since the Company as of January 31, 19X2 has converted these obligations into notes under a revolving credit agreement with the bank. The notes bear interest at XX% over prime rate. The amount which can be borrowed under the agreement is subject to reduction in the event of certain other borrowings.

Illustrative Note: Profit-Sharing and Compensation Agreements

The Company has a qualified profit-sharing plan. Annual contributions to the plan are made at the discretion of the Board of Directors. Provisions in the amount of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 were accrued and charged against income. The Company has adopted a key-employee performance incentive plan. Under the plan, income accrues to each key employee based upon the appreciation of the market value of the Company's common stock. In 19X1 and 19X0, \$X,XXX and \$X,XXX, respectively, was paid and charged against income.

Illustrative Note: Long-term Leases

All noncancelable leases have been categorized as capital or operating leases. The Company has leases for manufacturing plants, warehouses, administrative offices and machinery and equipment with terms (including renewal operations) ranging from one to fifty years. Under most leasing arrangements, the Company pays the property taxes, insurance, maintenance and expenses related to the leased property. Total rental expense under operating leases was \$XX,XXX in 19X1 and \$XX,XXX in 19X0.

Minimum future obligations on leases in effect at December 31, 19X1 are:

| | <u>Total</u> | <u>Land & Buildings</u> | <u>Machinery & Equipment</u> | <u>Operating Leases</u> |
|---|----------------|---------------------------------|--------------------------------------|-----------------------------|
| 19X2 | \$X,XXX | \$ XXX | \$ XXX | \$ X,XXX |
| 19X3 | XXX | XXX | XXX | X,XXX |
| 19X4 | XXX | XXX | XXX | X,XXX |
| 19X5 | XXX | XXX | XXX | X,XXX |
| 19X6 | XXX | XXX | XXX | X,XXX |
| Thereafter | XXX | XXX | XXX | X,XXX |
| Total Minimum Obligations | \$X,XXX | \$X,XXX | \$X,XXX | <u>\$XX,XXX</u> |
| Less amount representing interest | <u>XXX</u> | <u>XXX</u> | <u>XXX</u> | |
| Present value of net minimum obligations | X,XXX | X,XXX | X,XXX | |
| Less current portion | <u>XXX</u> | <u>XXX</u> | <u>XXX</u> | |
| Long-term obligations | <u>\$X,XXX</u> | <u>\$X,XXX</u> | <u>\$X,XXX</u> | |

The present values of minimum future obligations shown above are calculated based on interest rates ranging from X% to XX%, with a weighted average of approximately X% determined to be applicable at the inception of the lease.

Interest expense on the outstanding obligations under capital leases was \$XXX in 19X1 and \$XXX in 19X0.

Illustrative Note: Long-term Debt

Long-term debt at December 31, 19X1 and 19X0 consists of the following:

| | <u>19X1</u> | <u>19X0</u> |
|--|-----------------|-----------------|
| 9% mortgage note payable in monthly installments of \$X,XXX (including principal and interest) to April 1, 19X9, collateralized by land and building | \$XX,XXX | \$XX,XXX |
| 13% unsecured loan under credit agreement due in annual installments of \$XX,XXX plus interest on the unpaid balance to October 31, 19X5 | <u>XX,XXX</u> | <u>XX,XXX</u> |
| | <u>XX,XXX</u> | <u>XX,XXX</u> |
| Less current portion | <u>XX,XXX</u> | <u>XX,XXX</u> |
| | <u>\$XX,XXX</u> | <u>\$XX,XXX</u> |

The provisions of the unsecured credit agreement require the prior written consent of the creditor for additional borrowings, sale of property and acquisitions of the Company's stock, and limit the payment of cash dividends. At December 31, 19X1, retained earnings of approximately \$XX,XXX were available for the payment of dividends and other purposes under the agreement. Long-term debt maturing in the next five years consists of:

| | |
|-------|-----------------|
| 19X2 | \$XX,XXX |
| 19X3 | XX,XXX |
| 19X4 | XX,XXX |
| 19X5 | XX,XXX |
| 19X6 | <u>XX,XXX</u> |
| Total | <u>\$XX,XXX</u> |

Illustrative Note: Income Taxes

The components of the provision (credit) for income taxes are as follows:

| <u>Year ended December 31,</u> | <u>19X1</u> | <u>19X0</u> |
|---|-------------------------|------------------------|
| Currently payable | \$ XXX | \$ XXX |
| Deferred | (X,XXX) | X,XXX |
| Deferred-applicable to the change in accounting principle | — | (X,XXX) |
| Adoption of SFAS No. 96—current year | (XXX) | — |
| Total provision (credit) for income taxes | <u><u>\$(X,XXX)</u></u> | <u><u>\$ X,XXX</u></u> |

Certain items of income and expense are recognized in different years for financial reporting and income tax purposes. Deferred income taxes are provided in recognition of these temporary differences and are included in Other Liabilities. The items comprising the deferred tax provision are as follows:

| <u>Year ended December 31,</u> | <u>19X1</u> | <u>19X0</u> |
|---|-------------------------|------------------------|
| Difference in accrual/cash | \$(X,XXX) | \$ X,XXX |
| Provision for loan and lease losses | (X,XXX) | (X,XXX) |
| Change in method of reporting loan income | — | (XXX) |
| Difference in reporting depreciation | XXX | XXX |
| Lease financing transactions | X,XXX | X,XXX |
| Gain on sale of assets | (XXX) | — |
| Investment tax credits | (X,XXX) | — |
| Other—net | (XX) | (XX) |
| | <u><u>\$(X,XXX)</u></u> | <u><u>\$ X,XXX</u></u> |

A reconciliation of the statutory Federal tax rate to the effective tax rate on pretax income is as follows:

| <u>Year ended December 31,</u> | <u>19X1</u> | <u>19X0</u> |
|---|-----------------------|-----------------------|
| Statutory Federal tax rate | XX.X % | XX.X % |
| Tax-exempt income | (XX.X) | (XX.X) |
| Dividends received deduction | (X.X) | (X.X) |
| Interest to carry tax-exempt securities | X.X | X.X |
| Investment tax credits | (XX.X) | (X.X) |
| Effect of accounting change | (X.X) | — |
| State income taxes | (X.X) | — |
| Other—net | (.X) | (.X) |
| Total effective tax rate | <u><u>(XX.X)%</u></u> | <u><u>(XX.X)%</u></u> |

At December 31, 19X1, there are approximately \$X,XXX of unused investment tax credits expiring in 20X2 available for tax purposes. In 19X1, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The effect of adopting this statement in 19X1 on income from continuing operations was \$XXX or \$.XX per share. The effect on net income was \$X,XXX or \$.XX per share.

Illustrative Note: Pension Plan

Effective as of January 1, 19XX the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pension." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the Company's 19XX net income by \$X,XXX (\$.XX per share).

A summary of the plan's funding status and the amounts recognized in the consolidated balance sheet follows:

| | December 31 | |
|---|-------------------|------------------|
| | 19X1 | 19X0 |
| Actuarial present value of benefit obligations: | | |
| Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 | <u>\$(XX,XXX)</u> | <u>(XX,XXX)</u> |
| Projected benefit obligation for service rendered to date | (XX,XXX) | (XX,XXX) |
| Plan assets at fair value, primarily listed stocks and U.S. government securities | <u>XXX,XXX</u> | <u>XXX,XXX</u> |
| Plan assets in excess of benefit obligation | XX,XXX | XX,XXX |
| Unrecorded net loss (gain) from past experience different from that assumed and effects of changes in assumptions | XXX | XXX |
| Unrecognized net assets at January 1, 19X0 being recognized over XX years | <u>(XX,XXX)</u> | <u>(XX,XXX)</u> |
| Prepaid pension cost included in other assets | <u>\$ XX,XXX</u> | <u>\$ XX,XXX</u> |

A summary of the components of income follows:

| | 19X1 | 19X0 |
|--|------------------|------------------|
| Service cost-benefits earned during the year | \$ X,XXX | \$ X,XXX |
| Interest cost on projected benefit obligation | X,XXX | X,XXX |
| Actual return on plan assets | (X,XXX) | (X,XXX) |
| Net asset gain (loss) deferred for later recognition | (X,XXX) | (X,XXX) |
| Amortization of unrecognized net asset | <u>(X,XXX)</u> | <u>(X,XXX)</u> |
| Net Periodic pension income | <u>\$(X,XXX)</u> | <u>\$(X,XXX)</u> |

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were X% and X%, respectively. The expected long-term rate of return of assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump-sum payments for certain terminated participants. As a result, the Company recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

Illustrative Note: Stock Options

The Company's qualified and incentive stock option plans reserve X,XXX shares of common stock at December 31, 19X1 and X,XXX shares at December 31, 19X0 for issuance to officers and employees at fair market value at the date of grant. The options are exercisable over a 5-year period. Options to purchase XX,XXX shares and XX,XXX shares were available for grant at December 31, 19X1 and 19X0, respectively. Other options activity was as follows:

| | December 31 | |
|------------------------------------|-------------|-------------|
| | 19X1 | 19X0 |
| Outstanding at beginning of year | XX,XXX | XX,XXX |
| Exercised | X,XXX | X,XXX |
| Cancelled | XXX | XXX |
| Outstanding at end of year | X,XXX | X,XXX |
| Exercisable at end of year | X,XXX | X,XXX |
| Price range of options outstanding | \$X.XX-X.XX | \$X.XX-X.XX |
| Price range of options exercised | \$X.XX-X.XX | \$X.XX-X.XX |

Illustrative Note: Common Stock Split

In September 19X1, the Board of Directors authorized a two-for-one stock split of common shares effected in the form of a stock dividend in November 19X1. All earnings per common share amounts, dividend and market prices per common share included in this report have been adjusted for the stock split. An amount equal to the \$X par value of the additional common shares has been transferred from additional paid-in-capital to common stock; and common stock options outstanding, exercised and expired have been increased two-for-one and the exercise price reduced by one-half. In connection with the stock split, XX common shares were cancelled as a result of the payment of cash in lieu of fractional shares.

Illustrative Note: Interest Costs

The Company capitalizes interest costs related to the construction of building and equipment for its own use.

A summary of costs is shown below:

| | 19X1 | 19X0 |
|------------------------------|------------------|------------------|
| Total interest cost incurred | \$ XX,XXX | \$ XX,XXX |
| Interest capitalized | (XX,XXX) | (XX,XXX) |
| Interest charged to expense | <u>\$ XX,XXX</u> | <u>\$ XX,XXX</u> |

Illustrative Note: Related Party Transactions

Mr. A, a director and officer of the Company, is a partner in the law firm of A & B. The statements of income for 19X1 and 19X0 include \$XX,XXX and \$XX,XXX, respectively, for legal services rendered by A & B. Accounts payable at December 31, 19X1 include \$XX,XXX payable to A & B, which will be paid in the normal course of business.

Illustrative Note: Major Supplier

A material amount of the Company's raw materials inventory is acquired from a few suppliers, the loss of any one of which may have an adverse effect on the Company. If the Company were forced to change suppliers, it would incur substantial transportation costs for raw materials which would be difficult to pass along to customers.

For the year ended December 31, 19X1, one supplier accounted for \$XX,XXX of raw materials purchased; for the year ended 19X0, one supplier accounted for \$XX,XXX of raw materials purchased. Although there are no formal long-term supply agreements with these suppliers, the Company has done business with them for a minimum of five years.

Illustrative Note: Contingencies

There are claims and actions pending against the Company. In the opinion of management, the amounts, if any, which may be awarded in connection with these claims and actions would not be material to the Company's financial position.

Illustrative Note: Subsequent Events

On January 20, 19X2 the Company executed a \$XX,XXX unsecured loan agreement with the Bank. The loan is due in 19X8. Interest is payable monthly at a rate of X% above the Bank's prime rate. The Company is required to maintain a minimum working capital of \$XX,XXX to be in compliance with the loan agreement.

Illustrative Note: Discontinued Operations—Subsequent Event

On December X, 19X1, the Board of Directors authorized the sale of the Company's XX subsidiary, which manufactures and sells X. On January X, 19X2, the Company sold this subsidiary for \$XX,XXX. The pre-tax gain on the sale of this business segment of approximately \$X,XXX will be recognized in the Company's first quarter 19X2 financial statements. Net revenues of XX were \$X,XXX and \$X,XXX for 19X1 and 19X0, respectively. Amounts in the consolidated income statement for the years 19X0 and 19X9 have been restated to conform to the 19X1 discontinued operations presentation.

At December 31, 19X1 the component of total net assets of discontinued operations, which are included in the consolidated balance sheet, are as follows:

Working Capital

| | |
|-----------------------------------|----------------|
| Cash | \$ XXX |
| Accounts and notes receivable-net | X,XXX |
| Inventories | X,XXX |
| Other current assets | X,XXX |
| Accounts payable | (X,XXX) |
| Short-term debt | (X,XXX) |
| Other accrued liabilities | <u>(X,XXX)</u> |
| Total working capital | <u>X,XXX</u> |

Noncurrent

| | |
|---|------------------------|
| Fixed assets-net | X,XXX |
| Other assets | XXX |
| Long-term debt | (X,XXX) |
| Deferred income taxes | <u>(XXX)</u> |
| Total noncurrent | <u>X,XXX</u> |
| Total net assets of discontinued operations | <u><u>\$ X,XXX</u></u> |

Illustrative Note: Unusual Item

The Company's main warehouse was destroyed by fire on September 3, 19X1. The gain, recorded as a separate item in the income statement, represents the difference between the insurance proceeds received and the depreciated cost of the assets.

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